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World Business Newspaper http://www.FT.com

FRIDAY SEPTEMBER 27 1996

World Economy and Finance
A 36-page survey to coincide with the IMF and World Bank meetings starting in Washington this weekend looks at the impact global economic integration is having on developed and developing countries
Sections 3 and 4

Moscow backs plans for closer ties with Nato

Russia has backed US proposals for closer co-operation between its armed forces and Nato, but threatened to retaliate if the alliance expands. Defence minister General Igor Rodionov welcomed an offer by his Western counterparts to take part in planning peace-keeping missions. Page 18

US bidders fail to make STN Atlas cut: Up to eight European companies have been shortlisted as possible buyers of German defence electronics company STN Atlas, but US bidders have failed to make the second round. Page 19

Lebed marks 100 days with warning: Russian security chief Alexander Lebed marked his 100th day as a member of the Yeltsin administration with a press conference to warn that the country was on the brink of a catastrophe due to inadequate government spending. Page 3

Britain's non-EU trade gap falls: Britain's trade gap with countries outside the European Union fell to its smallest level for 15 months in August, but the deficit with EU countries more than doubled in July. Page 10

Figures signal US economic slowdown: Orders for US durable goods fell by 3.1 per cent last month, indicating a possible slowing of economic growth in coming months. Page 16; Currencies, Page 27; World stocks, Page 38

Drug sales rise to $70bn: Prescription drug sales in the world's 10 biggest markets rose to $70bn for the first half of this year, an increase of 6 per cent from the same period last year. Page 9

Guinness admitted the value of its shares had been eroded in recent years by poor acquisitions and cuts in advertising and the prices of its alcoholic drinks, as it announced a 5 per cent rise in half-yearly profits to £357m ($556.9m). Page 19; Lex, Page 18

Afghan troops 'abandoning' Kabul: Witnesses said Afghan government troops last night were abandoning the capital, Kabul, with rebel Taleban militia fighters, battling to oust President Burhanuddin Rabbani and impose strict Islamic rule, on the edge of the city.

Leader drowns in island protest: Man The Japanese government expressed condolences after the leader of a group from Hong Kong, protesting over Japan's claim to disputed Diaoyu islands in the East China Sea, drowned after leaping from his boat. Page 8

Crédit Lyonnais aid criticised: French bankers expressed concern over Brussels' approval of a the FFr3.9bn ($770m) aid package for Crédit Lyonnais. Page 3

UK outvoted on China toy limits: Britain failed to have EU quotas on Chinese toy imports removed following an interim opinion from the European Court of Justice which rejected claims the regime was protectionist. Page 9

Ceausescu's son dies: Nicu Ceauşescu, son of Romania's executed communist dictator Nicolae Ceauşescu, died in Vienna from acute liver disease caused by heavy drinking. Page 2

Second launch for Ariane-5: Europe's second Ariane-5 rocket, to be launched in mid-April 1997, will put two "dummy" satellites into orbit after the first launch blew up in June with the loss of four satellites worth $500m.

Suicide controversy: The world's first legally-assisted suicide, in Australia's Northern Territory, was hailed by Dutch right-to-die campaigners but the Vatican joined critics, saying no law or human suffering could justify euthanasia.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	5,894.00	(+16.84)
NASDAQ Composite	1,235.46	(+10.80)
Europe and Far East		
CAC40	2,104.14	(+0.73)
DAX	2,586.55	(+7.58)
FT-SE 100	3,933.2	(-2.5)
Nikkei	21,461.37	(+110.70)

US LUNCHTIME RATES

Federal Funds	5⅞%
3-mth Treas Bills: Yld	4.989%
Long Bond	98¼
Yield	6.863%

OTHER RATES

UK: 3-mo Interbank	5⅞%	(same)
UK: 10 yr Gilt	98¾	(98⅞)
France: 10 yr OAT	102.91	(102.85)
Germany: 10 yr Bund	101.28	(101.12)
Japan: 10 yr JGB	101.071	(101.401)

NORTH SEA OIL (Argus)

Brent Dated	$23.375	(23.01)

GOLD

New York: Comex		
(Dec)	$383.6	(385.3)
London:		
close	$380.90	(382.55)

DOLLAR

New York: lunchtime		
£	1.55905	
DM	1.5245	
FFr	5.1565	
SFr	1.2585	
Y	110.595	
London:		
£	1.5624	(1.5645)
DM	1.5217	(1.5102)
FFr	5.1465	(5.1113)
SFr	1.2516	(1.2335)
Y	110.38	(110.285)
Tokyo close:	Y 110.55	

STERLING

DM	2.3774	(2.3627)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.50
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kr70	India	Rs75	Nigeria	Naira120	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£60.00
Finland	FMk15.00	Jordan	JD1.75	Poland	Zl5.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils750	Portugal (m'land)	Es285	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

Israel sends tanks to West Bank

Fighting leaves 55 dead as state of emergency is called

By Judy Dempsey in Jerusalem

Israel yesterday declared a state of emergency and sent tanks into the occupied territories of the West Bank after 44 Palestinians and 11 Israelis were killed in the worst clashes since the *intifada* or Palestinian revolt of 1987-93.

For the first time, Israel confronted armed Palestinian policemen alongside stone-throwing youths. Tanks were last used in the West Bank during the 1967 Arab-Israeli war.

The widespread clashes represent a serious setback to the Middle East peace process which had virtually come to a standstill since the election of the right-wing Likud party headed by Mr Benjamin Netanyahu, the prime minister.

Mr Netanyahu cut short his visit to Germany and returned to Israel last night. He said he had spoken to Mr Yasser Arafat, president of the Palestinian Authority and was trying urgently to meet him.

Mr Arafat said he wanted to stop the bloodshed but Israeli officials said it was unclear if he had full control over the Palestinians and the armed Palestinian police. Palestinian officials said the PLO leader wanted any talks with Mr Netanyahu to include President Hosni Mubarak of Egypt.

Mr Uzi Dayan, the Israeli central commander, called the state of emergency after clashes between Israeli troops and Palestinians spread to the main West Bank towns and throughout the Gaza Strip.

The fighting, which started on Wednesday in the West Bank town of Ramallah, was sparked off by the opening of a tunnel under the old city of Jerusalem.

But Israeli defence officials last night said the tanks did not enter areas controlled by Palestinians under the terms of the 1995 self-rule agreement on the West Bank and Gaza.

Instead, they were situated on the outskirts of Ramallah.

Israel used helicopter gunships to fire on Palestinian demonstrators in the town, north of Jerusalem.

Mr Ahmed Tibi, an adviser to Mr Arafat, said the "writing was on the wall" for the peace process.

Mr David Levy, Israel's foreign minister, said there was no greater provocation than Palestinians "shooting at our soldiers". Speaking at the United Nations in New York, he said Israel had done everything to advance the peace process.

"Israel must defend its people and its soldiers. This is a test of Arafat's leadership [to see] if he can enforce order on his policemen," he added.

In Washington, President Bill Clinton made his first public statement on the clashes, saying: "I asked both sides to end this violence, to get back to the business of the peace and to resolve their differences through negotiations."

Britain and France appealed for calm and were more critical of Israel in tone, but appealed to both sides to show statesmanship. Mr Malcolm Rifkind, the British foreign secretary, said: "Mr Netanyahu's government must spell out the Israeli position and enter into the negotiations in a constructive way."

In Cairo, the Arab League issued a statement praising the Palestinian demonstrations against the opening of a tunnel in the old city of Jerusalem which sparked off the first wave of clashes between Israeli troops and Palestinians. "The Council of the League hails the intifada of the Palestinian people, with the participation of its leaders, in confronting Israeli repression."

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Road to peace blocked, Page 4

Battle line: a Palestinian policeman fires his rifle during the clashes with Israeli soldiers in the Gaza Strip. Israeli PM Benjamin Netanyahu has cut short his trip to Europe to return home as the death toll in the Middle East rises
Picture: Reuters

Mexico to auction bad loans acquired in crisis

By Stephen Fidler and Leslie Crawford in Mexico City

The government of Mexico plans to create a secondary market for the trading of bank loans and aims to hold the first auctions before the end of 1996.

Mr Eduardo Fernandez, Mexico's chief bank supervisor, said the Mexican central bank held more than 100bn pesos ($13bn) of non-performing loans, acquired from commercial banks in the past year to strengthen their balance sheets during the financial crisis. If the assets of the six banks in which it has equity stakes are included, the sum of banking assets in state hands rises to 200bn pesos – about one-fifth of the total assets of the banking system.

The government hopes to recover some of the cost of bailing out the banks by repackaging loans and assets, including 5,000 properties, and selling them at a discount.

To do so, the central bank has set up a special unit to act like an information clearing house. The unit has also been charged with preparing the first auctions and compiling a data base of information on the loans in state hands.

"We need accurate information to bundle some of the assets and sell them successfully," Mr Fernandez said. "The more information we can give on the status of the loans, the better recovery prices we will receive."

Mr Fernandez said Mexico's financial crisis had left the government with "too many assets". Several sale schemes were being considered, with the ultimate aim to establish a secondary market in which banks could trade loans. The government estimates the cost of the bank bailout at 8 per cent of gross domestic product.

British Telecom in $1.7bn French link

By Alan Cane in London and David Owen in Paris

British Telecommunications has formed a strategic alliance with the French utility Compagnie Générale des Eaux, and is investing £1.1bn ($1.7bn) in a 25 per cent stake in Cegetel, CGE's telecoms subsidiary, to further its European ambitions.

Cegetel aims to become the chief competitor to France Télécom in France, offering a range of fixed and mobile services to both business and, eventually, residential subscribers. It plans to bid for full telecoms licences next year in preparation for the liberalisation of Europe's telecoms markets after January 1, 1998.

CGE will retain 50 per cent of Cegetel. Other direct shareholders include Mannesmann of Germany with 10 per cent. Vodafone, the largest UK mobile operator, holds an indirect stake as does SBC, formerly SouthWestern Bell of the US.

Mr Jim Kahan of SBC said: "This is the most significant group of companies to come together to pursue a telecoms project anywhere in the world". Senior management of the joint venture will be French under managing director Mr Philippe Glotin, but BT will provide technological leadership.

Mr Jean-Marie Messier, CGE chairman, said that France Télécom's low-priced local residential tariffs meant Cegetel would be "selective" in the way it chose to enter this market.

This is even though France Télécom will have to "rebalance" its tariff structure by raising local call charges and cutting long-distance rates to compete in an open market.

In mobile phones, Générale des Eaux is already an important player through SFR, the second largest network operator in France's fast-growing but underdeveloped market.

The company believes the mobile sector will account for the bulk of future growth in the value of the French telecoms market.

For BT, the deal fills the last major gap in its European strategy. It has joint ventures in Germany, Spain, Italy, Sweden and the Netherlands.

It plans to co-ordinate these activities to create a pan-European group which will be the chief competitor to the incumbent operator in each country with an average 25 per cent to 35 per cent market share.

Each joint venture uses common technology and distributes BT's "Concert" advanced services for large multinational customers.

BT already has extensive alliances in Germany, but Sir Iain Vallance, BT chairman, said: "Our German partners are quite relaxed about us having a relationship with Mannesmann in France".

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Flemings chief hits out at UK market watchdog

By Nicholas Denton in London and Louise Lucas in Hong Kong

Mr John Manser, chief executive of Robert Fleming, the UK investment bank, yesterday vented his frustration at financial regulators as the group announced the resignation of the chairman of its scandal-hit joint venture in east Asia.

"We are going absolutely barmy in trying to find wrongdoing," said Mr Manser after Robert Fleming announced that Mr Alan Smith, chairman of Jardine Fleming, the Hong Kong based investment bank, had agreed to resign.

Mr Manser warned that as a result, investment banks might begin to move their businesses out of London.

Last month the group faced embarrassment when regulators revealed that one of the group's top fund managers had diverted profitable options trades and ordered Jardine Fleming to give $19.3m in compensation to investors who had lost out as a result.

Mr Colin Armstrong, the 43-year-old chief investment manager of Jardine Fleming Investment Management, allocated the more profitable trades to his own personal trading account.

It has now emerged that Mr Smith and many other Jardine Fleming executives also gained as a result of Mr Armstrong's trading.

Investigators have found no evidence that these executives knew of Mr Armstrong's activities. But they have discovered that Mr Smith, and about 100 Jardine Fleming staff, had a direct or indirect interest in the Ninja fund, which Mr Armstrong favoured in allocating lucrative trades.

Jardine Fleming said the decision to resign was wholly Mr Smith's and added that he was "not at all" implicated in the trading scam.

Mr Henry Strutt, managing director of Jardine Fleming, moves up to the position of executive chairman of the bank. Mr Tim Freshwater, who joined Jardine Fleming as a director from Slaughter & May last month, becomes deputy

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Italy gets the message on Emu criteria

By Robert Graham in Rome

The Italian government has radically altered its attitude towards budgetary austerity in order to ensure it is among the founder members of the single European currency.

The change has been prompted by mounting evidence that Italy's EU partners are determined to meet the Maastricht criteria on time. It has also been influenced by a fear of being excluded from economic and monetary union.

In recent days the government has quietly dropped its three year macro-economic programme which envisaged compliance with the Maastricht convergence criteria at least a year late in 1998.

The government is now convinced it must attempt to cut the budget deficit to 3 per cent of GDP by the end of next year – as required to take part in Emu from 1999.

The turning point came last week at a meeting in Valencia between Mr Romano Prodi, the Italian prime minister, and Mr Jose Maria Aznar, his Spanish counterpart.

Mr Prodi was surprised to discover that Mr Aznar was determined to put the Spanish economy in order, and did not want to team up with Italy to negotiate more flexible criteria for taking part in monetary union.

The same message emerged at last weekend's meeting of EU ministers in Dublin from other countries with problems meeting the Emu targets such as Austria, Denmark and Portugal.

Mr Massimo D'Alema, the leader of the Democratic Left (PDS), the dominant partner in the ruling centre-left Olive Tree alliance, has now given his full backing to Mr Prodi to introduce tougher measures for the 1997 budget, due to be finalised at a cabinet meeting today.

This has meant confrontation with Reconstructed Communism (RC), the hard-line communists who provide the government with its parliamentary majority and oppose cuts in pensions and health services.

The PDS leader also believes it will be easier to fight off the secessionist threat from the populist Northern League if Italy is firmly linked to a single European currency.

The government is now looking to find about L50,000bn ($32.8bn) in fresh revenues or spending cuts in 1997. This will be done in two stages – a L38,000bn package this autumn and an adjustment of L12,000bn in March 1997 to achieve a deficit of close to 3 per cent of GDP.

Two months ago the government had been planning a one-off budget raising only L32,000bn, which would have reduced the deficit to 4.5 per cent of GDP at the end of 1997. A more gradualist approach was thought essential to keep the government's leftist supporters on board, and the government calculated that Italy's EU partners could be persuaded to adopt a flexible approach to the Maastricht criteria.

Sensing the change within the Olive Tree, Mr Carlo Azeglio Ciampi, the treasury minister, has let it be known he will resign if budget austerity is watered down to satisfy the RC.

Faced with the choice of breaking with RC or losing Mr Ciampi, Mr Prodi has little choice but to back his treasury minister. A break with RC would oblige the government to seek allies in the opposition to pass the budget.

Armenian opposition leaders arrested

By Sander Thoenes in Yerevan and Alexandra Capelle in London

Police yesterday detained Armenian opposition leaders and accused them of attempting a coup, as troops and tanks poured on to the streets of the capital, Yerevan, to suppress anti-government demonstrations.

In a bad-tempered emergency session of parliament, which degenerated into a punch-up, MPs voted to allow criminal investigations of Mr Vazgen Manukyan and seven other opposition MPs, but stopped short of lifting their parliamentary immunity.

Riot police and troops, reinforced by tanks and armoured personnel carriers, blocked off squares and streets in the centre to stop opposition demonstrations against allegations that the government rigged the vote in Sunday's presidential election to ensure victory by the incumbent, Mr Levon Ter-Petrosian.

Police were last night searching for Mr Manukyan after closing and sealing his election headquarters. The authorities denied that the MPs they were holding were under arrest. "They launched a coup. We had the right to detain them for up to three days."

The Armenian government claimed that Mr Manukyan had effectively been leading a coup attempt when thousands of demonstrators broke through an army cordon and stormed the parliament building on Wednesday – Mr Manukyan was inside parliament at the time demanding an election recount.

Officials said the crowds had burst into parliament and kidnapped and injured the chairman of the national assembly and his deputy.

Mr Ter-Petrosian went on national television yesterday and claimed that there had been "a threat of facism from a group of mentally ill who planned to rule you". He said the "mob" which stormed parliament had been "led by well known instigators".

A health ministry official said 59 people had been injured. The government has banned all public gatherings and demonstrations.

The riots highlight popular frustration with Mr Ter-Petrosian's reforms, which have revived the economy but left the poor worse off.

The US State Department regretted that the opposition had resorted to violence – but accepted there had been electoral irregularities.

Russian President Boris Yeltsin sent a congratulatory telegram to Mr Ter-Petrosian.

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International mediators hatch scheme to put pressure on both Serbia and Croatia

Bosnia contact group plans new sanctions

By Laura Silber at the United Nations in New York

A consensus was emerging in the UN Security Council yesterday over a new sanctions regime against the rival factions in former Yugoslavia which violate the Dayton peace agreement for Bosnia.

The new measures, proposed by Mr Carl Bildt, the senior international envoy to Bosnia, would alleviate fears – particularly in Washington – that lifting sanctions against Belgrade would end leverage against President Slobodan Milosevic of Serbia and his Serb counterparts in Bosnia.

By inclnding Croatia, international mediators could bring to bear more pressure against Zagreb and its Bosnian Croat proxies who so far have refused to abandon their self-styled ethnic mini-state.

This could also win over Moscow, which has opposed what it sees as one-sided punitive measures against Belgrade. A Russian diplomat yesterday indicated that Russia was not likely to veto the measures.

Foreign ministers from the five-nation Contact Group – the US, Russia, Germany, France and the UK – yesterday discussed the new sanctions proposal in New York.

The ministere aleo appeared to bridge differences between the US and Russia by agreeing to lift sanctions against Belgrade 10 days after Bosnian elections are certified free and fair by the Organisation for Security and Co-operation in Europe (OSCE).

Despite controversy over the ballot count and the absence of freedom in most of Bosnia, the OSCE is likely to certify the election results this weekend, paving the way for the first meeting of Bosnia's new multi-ethnic leadership headed by Mr Alija Izetbegovic, a Moslem.

Mr Momcilo Krajisnik, Serb representative to Bosnia's new three-man presidency, appears to have agreed to attend the first session in Sarajevo.

But a diplomat yesterday said there were still "modalities which must be agreed before the meeting can take place."

International envoys are anxious to push forward with the building of joint governing institutions – the presidency and an over-arching Bosnian parliament – aimed at joining Bosnia's two halves in a loose union.

In what diplomats called a "good, constructive session", the often divided Contact Group also put forward the international agenda for the Bosnian peace process in the next few months.

Paris will host a ministerial-level steering board meeting – which inclndes the Group of Seven leading industrial nations plus Russia – on November 14.

Held after the US presidential elections, concrete decisions on the future shape of the international force to police Bosnia's fragile peace for the next two years will then emerge.

From left, Russian foreign minister Yevgeny Primakov with his US and British counterparts Warren Christopher and Malcolm Rifkind meet in New York yesterday Reuter

Danish regulator urged to refuse permanent licence to high-risk currency trader

Investor lost 93% of stake in a month

By Clay Harris

A currency investor who saw 93 per cent of his £8,000 ($12,480) stake disappear in a month is urging the Danish financial regulator to reject an application for a permanent licence by the company which handled his account.

In a letter to Finanstilsynet, the Danish agency, Mr Norton Jensen said Scandex Capital Management, a British-run but Copenhagen-based company, had traded without his prior knowledge and kept him in the dark about serious losses.

Scandex is one of several companies active in Europe which solicit customers by cross-border "cold calls" and direct mail to engage in high-risk currency trades.

Some are operating under interim authorisation in the UK or Denmark, where Scandex has an application pending. Others have set up in countries such as Germany and Spain, where regulation has not yet been extended to such companies.

If Scandex is approved by Denmark, it will receive a "passport" enabling it to operate throughout the European Union under the EU's investment services directive.

Mr Jensen, a retired British Gas engineering manager from Rochester, Kent, is a Danish citizen who has lived in the UK since 1968.

Finanstilsynet said yesterday that the "thoroughly documented" information provided by him would be valuable in its consideration of Scandex's application. Contacted by the FT, Scandex said: "We have nothing to say to you."

Mr Jensen recounted to the Danish regulator his experience of being cold-called by Scandex over several months.

He said: "I was told that the company was backed by Den Danske Bank and had personal contacts in Deloitte & Touche in London and in Copenhagen and that the company had been set up to bring the 'London trading expertise' to Scandinavia," Mr Jensen said.

According to a former Scandex salesman, staff were told to stress the name of Den Danske Bank, Denmark's largest banking group, even though the only connection was that the company had an account there. Deloitte in Copenhagen is Scandex's auditor. The firm in London said it had not heard of Scandex and had no record of providing any service to it.

Mr Jensen also said: "The risk was stated to be very small as they did not operate discretionary accounts, and that investors would be asked for agreement before each individual transaction, such that they would retain full control."

Although the sales staff made no promises, Mr Jensen told the FT: "They said they typically made 5 per cent profit per month for their clients."

He deposited £8,000 on July 2. "At first, the dealer telephoned me regularly and generally informed me of deals that had been opened or been completed. Very rarely was I asked to authorise a deal, or given the opportunity to question a deal before it took place."

After receiving accounts for July 3 and 4, he was told Scandex had "computer problems". Subsequent inquiries brought oral assurances that his account was "doing well with just a few minor losses." On August 9, he received a statement showing a balance of only £2,195. His trader said this was an error attributed to computer problems and "worked out by hand" that the actual figure was £2,374.

On September 13, Mr Jensen received a statement from Deloitte & Touche, acting as auditor, showing that his Scandex balance had fallen to £572 by August 2, a month after he had deposited £8,000. In repeated calls to Scandex, Mr Jensen has failed to contact his dealer, being told always that he was "out of the office". This week, he gave formal notice to close the account.

Mr Jensen has also sent his dossier to Britain's Securities and Investments Board and Securities and Futures Authority. The latter agency is considering an application for authorisation by Anderson Ross, a currency trading firm of which Mr Jeremy Bartholomew-White, Scandex's managing director, is also a director.

OBITUARY: NICHOLAS COLCHESTER

A rare ability to make words dance

Nicholas Colchester, who died suddenly on Wednesday at the age of 49, left his mark on the Financial Times in three crucial areas.

First, he put the newspaper on the map in the international capital markets. The FT had been desperately slow to recognise the full importance of the euromarkets, both as a subject of great importance to its readers and as a source of advertising revenue. From 1977 onwards, Colchester made it his business to put this right.

As David Kynaston wrote in the company history: "At a critical juncture for the paper – as critical in its way as the need after the war to attain an authoritative industrial presence – it would be only a slight exaggeration to say that Colchester 'saved' the FT."

His second great achievement came when, as foreign editor between 1980 and 1986, he locked the newspaper's international network into the heart of its business and economics coverage. Correspondents were still encouraged to write with style and elegance about international affairs, and to pursue headline making stories about the latest political drama or international conflict.

But they were also expected to be as interested in money supply as they were in Mitterrand. Cross fertilisation between the foreign department and other editorial sections was welcomed. This strategy provided an important part of the platform for the FT's development as an international business newspaper.

In addition, Nico Colchester brought an intellectual rigour to the paper's approach to Europe. He was deeply interested in, and committed to, the European idea, with an understanding based in part on his time as Bonn correspondent in the early 1970s, in part on the influence of his French wife, Laurence.

But he was not one of the if-it-comes-from-Brussels-sign-it school of Euro-enthusiasts. He was at least as concerned with the nitty gritty detail of how things actually worked as he was with the grand strategic vision, and he was ready to weigh in to attack the meretricious or the impractical.

His contribution to European journalism earned him the OBE in 1993.

Colchester joined the Economist in 1986, and became deputy editor three years later. He combined in his writing the best of the two publications: a solid basis of knowledge, intellectual excitement, flair, and a rare ability to make words dance.

He could make you think afresh about familiar subjects. He could pull together the pieces of the jigsaw puzzle so that the big picture suddenly became clear. And he could make you laugh.

In a trade where the shelf life of the very best work can usually be measured in days, he wrote articles which can readily be recalled years later. There were the two pieces written for the Economist about France, Germany and the single market. There was the short article published a full 15 years ago in the FT, in which he proposed the introduction of the Mars Bar as an alternative currency.

He was disappointed not to have been made editor of the Economist in 1993. But he was to find real enjoyment in his new role as editorial director of the Economist Intelligence Unit, where he became part of a small and successful management team.

Originally hired by the FT straight from university to write about technology, he loved anything technical. He understood and cared about how things worked. Appropriately, he recently became chairman of the Intermediate Technology Development Group, a charity which aims to provide poor communities around the world with down-to-earth solutions to down-to-earth needs.

At the time of his death, he was in training to take part in the 100th anniversary of the original modern marathon to raise money for this cause.

If it were not for the fact that he was the least pompous of men, you might have said he was becoming one of the great and the good. Most recently, he was characteristically excited by his role as one of the team of experts brought together to assess plans for reforming the World Service of the BBC.

At a time when the debate about Britain's role in Europe is becoming more emotional and less rational by the week, his voice will be badly missed. He leaves a gap for his friends that will not be filled.

Nico Colchester is survived by his wife and two young sons, to whom he was devoted.

RPL

Colchester: his voice will be missed

EUROPEAN NEWS DIGEST

Sick pay cuts spark action

Around 20,000 Mercedes-Benz car workers staged short walkouts yesterday, in protest at the management's decision to cut sick pay from Tuesday. The walk-out at several of the company's plants in and around Stuttgart amounts to the first sign of industrial action which German trade unions have threatened after a series of German industrial groups moved to reduce sick pay by 20 per cent.

Daimler-Benz estimated yesterday that the new rules would save about DM150m ($100m) a year. The company's works council has called for an overtime ban to disrupt the production of some of Mercedes-Benz car models.

Daimler-Benz was the first of Germany's largest industrial groups to announce unilateral cuts in sick pay from 100 per cent of a worker's salary to 80 per cent. Its decision was followed by other prominent German companies, including Siemens, the electronics group.

The cuts in sick pay were triggered by a change in German law to reduce statutory sick pay levels. But the law sets out only minimum entitlements and does not affect the right for employers and employees to negotiate a higher settlement. *Wolfgang Münchau, Frankfurt*

Italy's rail head resigns

Mr Lorenzo Necci yesterday resigned his post as head of the Italian state railways, 10 days after he was arrested and imprisoned on charges of alleged corruption. The government is expected to move quickly to replace him, since the loss-making railway is investing in a costly high-speed train network.

Mr Necci was arrested by magistrates in the Ligurian port city of La Spezia on allegations of setting up a web of secret companies to channel funds and help political allies. He has close ties to the political establishment – including some members of the present centre-left government – from a long career in public sector business. *Robert Graham, Rome*

France slams illegal working

French companies employing illegal or clandestine workers would be barred from receiving the country's growing number of job subsidies and training grants under a new government bill.

Mr Jacques Barrot, the social affairs minister, said the bill, to be presented to parliament this autumn, would also increase the powers of police, customs and tax officers to search company and factory premises for illegal workers.

The minister claimed that by using illegal labourers whose jobs were by definition "precarious", companies were hurting more honest competitors and causing the state to lose income tax and welfare contributions.

Mr Barrot said the government could currently prosecute and fine companies for individual infractions of employment law, but could not deny them general labour grants or subsidies. The new law would blacklist such companies from receiving such aid and from bidding for public contracts. *David Buchan, Paris*

Hungary plans tight budget

Hungary's Socialist-led government yesterday approved a tight 1997 budget with a deficit of Ft390bn ($255m) or 4.9 per cent of gross domestic product, saying it would submit it to parliament – where it has a large majority – by next week.

Thanks to accounting changes, the deficit will be higher than this year's target of 4 per cent of GDP. However, in comparative terms, next year's deficit works out at 3 per cent of GDP, in line with Hungary's stand-by agreement with the International Monetary Fund.

The draft budget cuts export subsidies to agriculture while corporate tax revenue is set to rise substantially because of an improving economic outlook and better tax collection. Mr Peter Medgyessy, finance minister, said 1997's inflation target was 18 per cent, after an expected 24 per cent this year. *Virginia Marsh, Budapest*

French car plan discontinued

France has decided not to extend a government incentive programme for new car buyers scheduled to end on September 30.

The decision, disclosed last night by the industry ministry, represents a victory for Mr Jean Arthuis, the finance minister, who had argued strongly against an extension in cabinet. But it is likely to disappoint some car industry leaders, particularly Mr Jacques Calvet, the outspoken head of the Peugeot Citroën car making group.

Under the scheme, new car buyers have been offered a bonus of FFr5,000 to FFr7,000 ($1,330) for trading in a vehicle at least eight years old. The scheme has been instrumental in triggering a sharp upsurge in French car registrations. This month, registrations are expected to be nearly double September 1995 levels. *David Owen, Paris*

Romanian dictator's son dies

Nicu Ceausescu (left), hard-drinking playboy son of Romania's executed communist dictator Nicolae Ceausescu, died in hospital in Vienna yesterday, with internal bleeding from acute liver disease. A womaniser and gambler who squandered vast sums at gaming tables across the world, Nicu, 45, was being groomed as his father's successor before a violent revolution toppled the Stalinist dictator in December 1989. Nicolae Ceausescu and his wife, Elena, were shot by firing squad on Christmas Day, ending their ruthless 24-year rule. *Reuter, Vienna*

Swiss cut discount rate

The Swiss National Bank, in an attempt to discourage speculative inflows into the Swiss currency and revive the country's flagging economy, has cut its discount rate by half of a percentage point to 1 per cent. This is its lowest level since February 1978.

The Swiss central bank said yesterday that it had supplied the money market with additional liquidity since the beginning of August to prevent monetary strain. Switzerland's economy has been stagnating for several years and the persistent strength of the currency has led to a continual downgrading of economic estimates. As recently as July, the OECD was forecasting that the Swiss economy would grow by 0.5 per cent in 1996. However, the current consensus view is that gross domestic product will decline this year.

The Swiss National Bank had been attacked by some industrialists for not doing more to revive the economy and offset the currency's strength. *William Hall, Zurich*

■ Plans are being made for the launch of a new Europe-wide professional examination and qualification for financial analysts and fund managers.

Speaking yesterday at the Barcelona Congress of the European Federation of Financial Analysts' Societies, Mr David Damant, president, said the new degree-level qualification would be launched in central and eastern Europe. *Barry Riley, Barcelona*

Russia near abyss, warns Lebed after first 100 days

By Chrystia Freeland in Moscow

Mr Alexander Lebed, the Russian security chief, yesterday deployed the thundering rhetoric of the campaign trail to warn that inadequate government spending had brought the country to the brink of a military revolt and a social and ecological catastrophe.

The former general's carefully stage-managed effort to portray himself as champion of Russia'e unpaid workers and soldiers and protector of its environment was the latest move in the struggle for political prominence unleashed by Russian President Boris Yeltsin's heart ailment.

"I am trying to prevent the country from slipping into the abyss, and I will keep on trying, and I think I will succeed," Mr Lebed told a packed press conference called to mark his 100th day as a member of the Yeltsin administration – e milestone noted with extensive interviews in many of Russian leading newspapers.

Comparing Russia to "a body covered with terrible wounds and ulcers and plagued with still concealed diseases" Mr Lebed said he was setting his sights beyond Chechnya, where he negotiated a fragile ceasefire and troop withdrawal last month.

Now, the openly ambitious security chief said he would seek to turn the government's attention to an eclectic set of problems including the financial travails of the army, environmental hazards associated with Russia's military and civilian nuclear reactors and the dangerous shortage of food and fuel in the Arctic regions of the country.

Following the doctors' announcement this week that Mr Yeltsin's heart bypass will probably be delayed for two more months, Mr Lebed's move is part of the jockeying for power which is likely to dominate Russian political life over the next few months.

Even Mr Victor Chernomyrdin, the normally staid Russian premier, yesterday made an effort to look presidential.

Mr Chernomyrdin, who would automatically take over for three months if the president were to die or be incapacitated, adopted a commanding tone at a cabinet meeting, warning his ministers that they would be sacked if they did not toe the government line during coming budget battles in the communist dominated legislature.

"If members of the government start playing any kind of game there, in the State Duma [lower house of parliament], I warn them that whoever they are, whatever their rank, they will not work here," the Russian news agency Interfax quoted Mr Chernomyrdin as saying.

According to the Russian constitution, sacking and appointing ministers is the prerogative of the president.

The caution was also interpreted as e veiled warning to Mr Lebed, who is not a member of the cabinet but whose criticism of the parlous state of the army is a direct attack on the government.

Family silver sent to market as hard times hit Bulgaria

Anthony Robinson sees illusions shattered and officials heading for Washington to seek loans

The former communists who continued to hold power after the removal of Mr Todor Zhivkov, Bulgaria's communist dictator six years ago, used to rail against attempts to "sell the family silver" and argued that state assets should be "restructured" before being privatised at a high price.

This week'e near-tripling of interest rates to 300 per cent, and the despatch of central bankers and finance officials to Washington to seek new loans and bridging finance in the corridors and ante-chambers of this weekend's IMF/World Bank meeting, mark the end of illusions.

A fire-sale of state assets, starting with 15 of the potentially most attractive enterprises, is about to start.

Nearly two years ago Mr Zhan Videnov, e former Communiet party youth leader, led the Bulgarian Socialist party, the doctrinally divided heir to the former Communist party, to a clear electoral victory.

He promised to and the years of drift which followed the defeat of the ineffective anti-communist Union of Democratic Forces (UDF) in 1992.

He did not deliver – partly because of his own ideological training, partly because of opposition from powerful factory bosses, political rivals and the trade unions, and partly because 1995 was an exceptionally favourable year for trade.

Bulgaria's state-owned petrochemical, steel and other basic industries were able to take advantage of the strong expansion in world trade in 1995. Strong export demand supported the first modest growth after six years of calamitous decline in output. Agricultural marketing organisations even exported strategic stocks and much of the seed-corn.

But this respite reduced the momentum behind privatisation and structural reform, and real incomes soared beyond modest productivity gains on the back of an over-valued lev.

Since export demand slackened in the second half of last year output started to fall, reserves flowed out and a series of increasingly panic-stricken emergency measures have progressively raised interest rates, devalued the lev and squeezed real incomes.

But with the political temperature rising ahead of next month's presidential elections, tha focus on the economy wavered as debate deteriorated into ill-tempered personal feuding.

Insistent pleas from the IMF and the World Bank for tough action to release structural reform funds were ignored while banks piled up bad debts which reflected eccumulating losses in the etill largely etate-owned economy. The private sector screamed about punitive taxation and being crowded out of the credit market by e cash-starved government.

"It seemed possible to cruise along for a time. But without the micro-economic reforms to impose financial discipline, enterprises continued to be run by people who steal from them, and the banks continued to lend to people who had no intention of paying back, believing that they could always get refinancing from the central bank," says Mr Alex Begov, who deals in Bulgarian debt for JP Morgan. "Events this week have destroyed these illusions."

The sell-off is above all a last-ditch effort to raise cash. But if the sale does attract the strategic investors the state privatisation agency is looking for, this week'e crisis could lead to the long-delayed modernisation and restructuring which an under-capitalised and looted economy desperately needs.

Experience elsewhere in the former Soviet bloc – Kazakhstan, for instance – indicates that with honest, modern management and strong financial controls even obsolete heavy industries such as steel, petrochemicals, shipbuilding and smelting can be slimmed down and turned around.

For all its decrepitude, Bulgaria retains a skilled, adaptable workforce and a strategic position on the Black Sea which makes it a future conduit for Russian and central Asian oil and gas destined for southern and western Europe and Turkey. Its special skills in telecommunications make it attractive to German, Italian and other telecom companies.

But Bulgaria's beet chances of wooing the long-term strategic investors it needs to transform its industrial base appear to lie in the interest of Asian, and eepecially South Korean, companies.

Asian investors were late to enter east and central Europe. But they are now looking hard at Bulgaria and the wider Black Ses region to build economic bridgeheads in an eastern Europe which is starting to be perceived as ripe for Asian-tiger type growth in the next century.

Ministers widen Europol powers

By Neil Buckley in Dublin

The European Union moved yesterday to combat the growing problem of sexual exploitation of women and children when ministers agreed to give new powers to Europol, the embryonic EU-wide police force, to tackle international prostitution and paedophile rings.

Home affairs ministers meeting informally in Dublin agreed to extend the remit of Europol's drugs unit to cover "trafficking" in human beings.

They also agreed to improve co-operation among police forces through exchanges of information and training, and establish a directory of "centres of excellence" – forces with expertise in dealing with particular crimes.

The measures will be adopted shortly at a formal ministers' meeting in Brussels.

Ministers also agreed, under pressure from Mrs Nora Owen, justice minister for Ireland – holder of the EU presidency – and Mrs Anita Gradin, European justice commissioner, to speed up ratification at national level of Europol's long-delayed founding convention, with the aim of completing it by December 1997. That would allow Europol, at present limited to a skeleton drugs unit, to be fully established.

Recent events in Belgium, where e paedophile ring responsible for the deaths of at least four children is thought to have had international links, have emphasised that the cross-border crime Europol is designed to tackle includes not just drugs and terrorism but the international sex trade.

But yesterday's measures showed the limitations of EU co-operation. They did not include immediate creation of a central database of missing children and convicted paedophiles, as suggested by several member states.

Mrs Owen said these needed to be established first at national level, though they would be taken over by Europol once it was fully established.

Crédit Lyonnais aid upsets bankers

By Andrew Jack in Paris

French bankers yesterday expressed concern about the approval of additional state aid to help Crédit Lyonnais, but held back from the stronger public criticism they have made in the past.

One banker privately called the deal "disgraceful", while others expressed discontent as they examined the details of the FFr3.9bn ($770m) aid package, agreed ahead of more fundamental restructuring in the coming months.

Société Générale issued no new statement following Brussels' approval of the emergency package on Wednesday, but reiterated the comments of Mr Marc Viénot, its chairman, made last week when he presented his group's results.

Mr Viénot, who has lodged an action with the European Court in Luxembourg claiming that the rescue plan distorts competition, called Crédit Lyonnais's "dirty dossier", and demanded that it be privatised as soon as possible.

The effect of this week's aid package is to waive the costs to the bank of a special loan designed to finance the sale of assets removed from its balance sheet last year as part of the existing rescue plan.

The FFr3bn costs of the loan to Crédit Lyonnais for this year will be wiped out, while the bank will be able to report an exceptional profit of an additional FFr560m, representing a reimbursement for the costs of the loan last year.

This will be offset by other charges expected to be reported in the bank's half-year results next Thursday, including more than FFr100m in restructuring costs.

Mr Jean Arthuis, the French finance and economics minister, stressed that the new restructuring plan ahead of the privatisation of the bank would need to extend wider than the loan.

He did not deny suggestions that have circulated of a recapitalisation of the bank ahead of the sale, which some estimates have put at FFr10bn.

Palestinians carry the wounded (left) after clashes in Gaza, while their police in the West Bank take aim at Israeli troops

Pictures: Reuter and AP

Businesses close as Palestinians come to take away the dead

'The start of a new intifada'

By Judy Dempsey in Ramallah

Young schoolgirls led the way. In green and white uniforms, they marched through the centre of the West Bank town of Ramallah towards the hospital, already surrounded by hundreds of Palestinians.

"We want to take away our dead and bury them," said one of the Palestinians – Tariq, 25, whose brother was injured by Israeli troops when they opened fire on demonstrators on Wednesday evening. Since then, 33 Palestinians and 10 Israelis have been killed in the worst outbreaks of violence since 1994.

Thousands of people started following the girls. The crowds swelled. They vowed to fight against Mr Benjamin Netanyahu, the Israeli prime minister and head of the conservative Likud party. "It is his fault. He does not want peace. He just talks. His words are empty. It is time for action," said Tariq.

At the hospital, guarded by young Palestinian police, the crowd stopped. Many started making their way down towards the main entrance of the town. Palestinian police took up their positions there in December, as part of last year's Israeli-Palestinian self-rule agreement on the West Bank and Gaza.

"It is over. The peace process is finished. This is the beginning of a new intifada," said Abdullah Zaid, 27. His brother too was wounded, in crossfire between Palestinian police and Israeli defence forces.

The intifada, or uprising, was started in 1987 by Palestinians in the Israeli-occupied territories of Gaza and the West Bank, but it fizzled out in 1993 when the peace process started. "But this time it is different. It is a new intifada and on a new level," said Abdullah. "We now have our own armed Palestinian police to defend and protect us against the Israelis."

Abdullah was standing close to the Palestinian checkpoint. The Israeli checkpoint was about 800 metres away. Then shots rang out.

Some people dived for cover. Others rushed up to the Palestinian police and started arguing, with one civilian making a grab at the policeman's rifle. "Fight back. Don't just stand there. Protect us," several young Palestinians shouted.

The policemen tried to push back the crowds and calm them, while other policemen sat in their jeeps, as if unsure what measures to take. The air was filled with the sound of live ammunition coming from the directions of both checkpoints.

"Get back. Get back," a young Palestinian policeman shouted. The crowds hesitated. "What can I do?" another policeman roared out. "Fight back. Fight back," they answered. The policeman stared at them.

Back behind the Palestinian checkpoint, teenagers were lighting a bonfire and throwing stones at cars with Israeli number plates.

Not far away, in one of the few quiet districts of Ramallah, Mr Tewfic Habesh was standing outside the Arab Development and Credit bank. He is the general manager. But he was doing no business. The bank, like every other service in Ramallah, was closed. Mr Yassir Arafat, president of the Palestinian Authority, had called a general strike throughout the West Bank and Gaza to protest against the killings.

"You know as well as I do what all this means," he said. "My job is to attract investment in the region. We need political stability for this economy." He paused. "It may be difficult to get out of Ramallah. Take another road."

Arab League urges UN to act

By Sean Evers in Cairo

The 22-member Arab League, at an emergency session in Cairo yesterday called on the United Nations Security Council to halt Israel's "aggression" against the Palestinians.

Mr Esmat Abdel Meguid, secretary general of the League said "We want to establish peace but Israeli actions are torpedoing the peace process". Saudi Arabia denounced Israel's extension of a tunnel beside the al-Aqsa mosque in East Jerusalem as "a blow to Moslem feelings".

President Hosni Mubarak of Egypt told Mr Benjamin Netanyahu, Israel's prime minister, that the violence would only stop when Israel fulfilled its agreements with the Palestinians.

Syria's official daily al-Baath newspaper said the bloody clashes in the occupied territories signalled the start of a new, more powerful uprising against Israel. It described the Palestinian outrage as "natural". The Lebanese government condemned what it called Israel's "massacres" of civilians. It called on all Arabs to take a strong unified stand.

Sheikh Mohammed Rashid Qabbani, Lebanon's highest Sunni Moslem cleric said "violence and terrorism... used by the Zionist enemy against our sons in Arab Palestine will not pass without punishment".

Bankers hit at crisis proposals

By George Graham in Washington

Proposals from the Group of 10 leading industrialised nations for dealing with financial crises in emerging markets – such as the Mexican peso squeeze of 1994 – came under fire yesterday from international banks and investment institutions.

The Institute for International Finance (IIF), whose members include many of the world's leading commercial and investment banks as well as fund managers and insurance companies, warned that a G10 report earlier this year on crisis resolution ran the risk of encouraging countries to suspend payments on their bonds.

The IIF said that official approval of payments suspension increased the risk that countries would come to believe that this kind of financial crisis need not be painful.

"We do not want to set up... expectations that arrears and defaults are an easy option," said Mr William Cline, the IIF's chief economist and chairman of the working group that produced the report.

Even worse, the IIF says in a report to be published today, is the G10's proposal to widen the conditions in which the International Monetary Fund will lend money to countries which are in default on their commercial debt.

Traditionally, the IMF refused to lend more money to countries which had not reached an understanding with their commercial creditors on their debt repayments. In 1989, however, the IMF decided to allow new loans to countries which still had unresolved arrears of bank debt.

The IIF report criticises the suggestion by the G10 report for widening this loophole to include bond arrears as well as bank debt as "misguided".

"In effect, official sector approval would be conferred on breaching contractual obligations," the report says.

Far from widening the loophole, the IIF urges the IMF to return to its pre-1989 policy of not lending to countries with unresolved arrears.

But the report's authors said they broadly welcomed much of the thrust of the G10 report, especially its rejection of proposals to set up some kind of international bankruptcy court to handle other Mexico-style crises.

The Washington-based group, which has members in 39 countries, said it was important that solutions to future financial crises should be based on working with the financial markets, and should be developed case by case.

"It's important not to establish any perception that there are automatic mechanisms that trigger in when a particular set of conditions is reached," Mr Cline said.

Opening of a tunnel blocks the road to peace

By Judy Dempsey and Avi Machlis in Jerusalem

The spark which ignited the demonstrations and bloody clashes between Palestinians and Israelis was the opening of an ancient tunnel in the old city of Jerusalem, where any decision has immediate repercussions for Arab-Israeli relations.

That was why the future status of Jerusalem bad been left out of the Israeli-Palestinian interim peace agreement, leaving any discussions until talks on a final settlement.

However, the Likud government, led by Mr Benjamin Netanyahu, appears to have pushed Jerusalem oo to the immediate agenda, as demonstrated by the opening of a section of the tunnel.

The action, seen as more than untimely by both Palestinians and Israeli peace supporters, followed weeks of frustration among Palestinians and critics of the Likud goverment.

"Palestinians were just fed up. The peace process was going nowhere. All we heard were empty words. The tunnel lit the fuse, which it might not have done in other circumstances," said Mrs Hanan Ashwari, higher education minister in the Palestinian Authority.

The tunnel, built between 142 and 63 BC under the old city of Jerusalem, was discovered more than 100 years ago. No excavations took place until 1967, when Israelis captured Jerusalem during the Arab-Israeli war. The government then opened np the Western ("Wailing") wall tunnel, and in 1987 it hegan excavating a section aimed at extending the tunnel to the Moslem quarter.

However, the former Labour government had postponed opening the exit leading from the Western wall – the Jews' holy site – to the Moslem quarter, close to the Temple Mount complex. That complex houses the Al-Aqsa mosque, the third holiest Moslem site.

The question is why this particular exit has aroused emotions.

The Moslem community perceives the tunnel as a threat to the Islamic and holy sites and a harbinger of an eventual "Judaisation" of the city. Mr Yassir Arafat, president of the Palestinian Authority, said the tunnel was the first step towards allowing extremist religious Jews to pray on the Temple Mount. Herein lies the nub of the cootroversy.

In 1967, Israel granted autonomy over the Temple Mount to the Waqf, the Moslem Religious Trust. Jews, meanwhile, were barred from praying at the Mount in order to avert potential conflict between worshippers of the two faiths, a decision accepted by the rabbinical authorities. In recent years, however, a movement called the Temple Mount Faithful began a campaign to gain Jewish access to the Mount. The Labour and previous Likud governments did not support their claims.

Those claims are not yet publicly on Mr Netanyahu's agenda. He is however, reluctant to discuss many issues with the Palestinians, particularly the future status of Jerusalem.

Labour had never wanted to discuss the status of the city either, maintaining it was Israel's eternal capital. But the party agreed reluctantly to defer its final status to keep the peace process on track. The tunnel exit may lead the peace process to a dead end.

IMF presses US on capital

By Robert Chote, Economics Editor, in Washington

Mr Michel Camdessus, the managing director of the International Monetary Fund, yesterday threw down the gauntlet to the US by pressing again for big increases in the Fund's share capital and its overdraft facility for central banks.

The IMF's board agreed earlier this month to propose a fresh allocation of "special drawing rights," the quasi-currency which the Fund creates by allowing central banks to borrow foreign exchange reserves at the sorts of interest rates normally available only to big industrial countries.

Speaking ahead of the IMF's annual meeting next week, Mr Camdessus said that SDR26bn could be issued, worth $37.4bn. This would allow the SDR holdings of all the IMF's members to be raised to the same level, relative to their shareholdings (or "quotas") in the Fund.

Bnt the board did not agree the size of the allocation and officials said that Mr Camdessus's proposal was too large for the US to stomach.

Because the allocation would be skewed in favour of those countries which have joined the IMF since SDRs were last issued in 1981, it would require an amendment to the Fund's articles of association and parliamentary ratification in most member countries.

Discussion of whether an SDR allocation should be skewed or across-the-board caused a big dispute between industrial and developing countries at the Fund's 1994 annual meeting in Madrid which has rumbled on ever since. The Group of Seven industrial countries has proposed a modest skewed allocation of SDR16bn.

Mr Camdessus also said that the Fund's deteriorating liquidity meant that the time was fast approaching when member countries would have to augment its capital base. He said that there was "broad support" in the IMF board for a substantial increase in Fund quotas, which he defined as an increase of 50 to 100 per cent. However, this again is likely to be mnch larger than the US would be prepared to accept. Fund quotas currently total SDR145.3bn ($209bn).

Uganda may get debt help next year

By Patti Waldmeir and Robert Chote in Washington

Uganda could receive relief on its $3.4bn foreign debt as early as next year, according to a proposal to be put before the development committee of the International Monetary Fund and World Bank next week.

Uganda is expected to be the first country eligible for relief under a joint IMF/World Bank plan to relieve the deht of the poorest countries, which will he an important focus of next week's IMF/World Bank annual meetings in Washington.

Mr Michel Camdessus, IMF managing director, yesterday spoke of a strong coocensus behind the initiative, calling it a "done deal". He made clear that he believed the required consensus existed within the IMF Board to sell some IMF gold reserves to finance IMF participation in the plan, though no sales would take place immediately.

Under current proposals, debt relief to Uganda would be delayed until 1999 or 2000, while the country meets strict requirements set down under the so-called Highly Indehted Poor Country debt intiative.

That initiative has been criticised for causing undue delay in providing relief to countries like Uganda, which have already demonstrated their commitment to economic reform by adhering to a strict IMF structural adjustment programme.

The development committee will consider a proposal to accelerate the process in the case of Uganda, to provide relief from next year. The timing of relief to other countries would be decided on a case-by-case basis.

Oxfam international yesterday released a study of how the debt plan would affect Uganda, saying the country would save $80m in debt servicing costs annually over the next three years. This would represent six times the current level of spending on primary health care.

Past debt relief strategies had failed to help Uganda because over 70 per cent of its debt was owed to multilateral creditors, mainly the IMF and World Bank, which had in the past refused to agree to debt reduction. Bilateral creditors in the Paris Club had also reduced Uganda's debt service claims by only a 5 per cent.

INTERNATIONAL NEWS DIGEST

Zeroual axes reformers

Algerian President Liamine Zeroual yesterday replaced the two most reform-minded ministers in his cabinet three days before a conference in Algiers to debate economic policy. Mr Ahmed Benbitour, the finance minister, credited with overseeing the accord signed with the International Monetary Fund in 1994 and the rescheduling agreements with the Paris Club of creditor governments last year, was replaced by Mr Abdelkrim Harchaoui, the minister of commerce.

Mr Mourad Benachenou, minister of privatisation and restructuring, who had been expected to attend a CBI conference in London next week, was replaced by Mr Abdesselam Bouchouareb, the chairman of the economic and social council which advises the government on social and economic issues. Mr Benachenou is a former World Bank executive who has called for more transparency in Algerian government dealings.

Analysts said yesterday the finance and restructuring ministers were being used as scapegoats when Algeria is being asked to restructure its economy. President Zeroual complained last week that privatisation was proceeding slowly.

Roula Khalaf, London

World Bank screening 'fails'

The World Bank's methods of screening its lending projects for possible damage to the environment are failing and need to be improved, according to an internal bank memorandum leaked yesterday.

Prepared by the Bank's operations evaluations department, the report said that the multilateral body's environmental assessments of projects had a "limited impact" because they were prepared too late in a project's life-cycle.

Layla Boulton, London

Shareholder sues Sumitomo

A Sumitomo Corporation shareholder yesterday filed a suit against the Japanese trading company over its handling of its shareholders' meeting in June. Mr Kazuyoshi Yuoka, an individual shareholder with 2,000 Sumitomo shares, filed the suit with the Osaka District Court demanding a repeal of four resolutions passed at the meeting.

Some of the company's shareholders had complained after the shareholders' meeting, which followed Sumitomo's copper loss announcement early in June, that they had not been given the opportunity to question board members.

William Dawkins, Tokyo

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NEWS: THE AMERICAS

Menem presses reforms despite strike

By David Pilling in Buenos Aires

The Peronist government of President Carlos Menem was yesterday on the verge of an historic rupture with the trade union movement as the CGT union federation began a 36-hour general strike against the administration's economic and social policy.

From midday yesterday, most schools and banks in Buenos Aires were shut, while hospitals were only operating an emergency service. Public transport was due to stop at 8pm after a rally in the central Plaza de Mayo for which union organisers expected 50,000 demonstrators to attend. By 2.30pm, thousands of workers, some banging drums, were arriving at the square.

The strike, which continues today, follows a 24-hour stoppage on August 8 which paralysed most of the country. Unions, which for much of Mr Menem's seven years in office have backed his free-market reforms, now blame government policies for recession and record unemployment of 17.1 per cent.

Protests were also organised in several other Argentine cities, many in provinces which have been hard hit by the recession that has gripped the country since mid-1995, though which now shows signs of easing. In Córdoba, Argentina's second city, there were minor skirmishes with police as protesters threw Molotov cocktails and smashed shop windows.

President Menem vowed that the strike, which was supported by the opposition Radical and Frepaso parties as well as some dissident Peronists, would not divert him from his free-market crusade.

Rather than cave in to demands to ease up on austerity measures, Mr Menem appears bent on sharpening the conflict with unions, which have historically been the backbone of the Peronist structure.

Earlier this week, the president unveiled radical plans to scrap collective pay deals, lower redundancy payments and change working hours. On Wednesday night, parliament approved a tough austerity package.

Mr Carlos West Ocampo, chief spokesman for the CGT, said Mr Menem's attacks on labour rights went to the "neurological centre, the very essence of Peronism." The president's attitude could "alter the nature of the alliance between Peronism and workers," said Mr West Ocampo. "In this case, the World Bank is trying to deflate salaries and prices, at the expense of working Argentines."

Mr Menem has also threatened to deregulate health schemes run by unions, often their main source of finance.

Criminals take up soldiers' arms

Violence is sabotaging Central American business, says Johanna Tuckman

Central America's ideological armed conflicts are dying out, but now the regioo is suffering a surge in another type of violence.

From Guatemala to Panama, criminal assaults are increasingly common and vicious. "The armed conflicts left behind psychological scars and violent attitudes. They also left large numbers of unemployed people carrying guns," says Guatemalan political analyst Mr Frank La Rue.

Mr Arnoldo Brenis from the Arias Foundatioo for Peace and Democracy in Costa Rica blames "poverty, lack of work opportunities and easy access to firearms". But be also points to what he calls the "globalisation of crime" as carjackers and drug traffickers take advantage of peacetime border relaxations and regional economic integration.

Beyond sucb general trends, tbe crime wave in each central American country has its own characteristics. British embassies counsel tourists to be cautious with valuables in Belize and Panama wbere crime bas risen by a lesser degree than elsewhere. But in El Salvador, the embassy advises that the victims of robberies are "likely to be murdered eveo if they do not resist their attackers".

In Guatemala, fighting in the region's longest and last remainiog conflict has petered out with a ceasefire in place since March and a peace treaty is expected by the end of the year. But a chilling crime wave is shadowing the arrival of peace that Ms Helen Mack, a human rights activist, associates with "a fierce culture of violence stemming from the extreme brutality of the Guatemalan war".

When relatives of Mr Juan Enrique Corzo went into a Guatemala City restaurant toilet in May looking for a message from his kidnappers, they found a plastic bag containing the businessman's severed ring finger.

Unofficial sources currently estimate an average of two kidnappings per day. Gangs differ in their degree of sophistication, and ransom demands range from a few thousand to millions of dollars, depending on the victim's ability to pay. Mr Corzo's family paid $300,000 for his release.

Despite the claim by the authorities that co-operation between the police and the military is bringing kidnapping and car theft under control, Ms Mack is not convinced. "The brains behind these operations have not been caught. Powerful military people are involved and it doesn't seem as if the government is willing to touch them," she says.

Meanwhile, Mr Jorge Briz, bead of Cacif, the main confederation of Guatemalan business, is warning of capital flight and that "the insecurity felt by businessmen is one of the country's major economic problems. The ghost of recession hangs over our heads." As elsewhere in the region, violent crime is blamed for undermining business confidence and sabotaging efforts to attract foreign investment.

For the less influential, anger simply boils over at the impunity with whicb crimes are committed. In one of the first instances of the mob justice that have become a regular occurrence since March, an enraged crowd killed an alleged kidnapper after they had turned him over to police. Witnesses said that the man had bragged, "take a good look at me right now, because tomorrow I will be free".

> Even the tranquil image of Costa Rica has been sullied

While as one diplomat remarks "in kidnapping, Guatemala has the region beat", El Salvador is the main venne for gang violence. This, according to the same diplomat, has much to do with the compulsory return of Salvadorean nationals from the US, equipped with "the education they received on the mean streets of Los Angeles."

Since deportations began, following the 1992 accords that ended El Salvador's 12-year-long civil war, gangs have staked out their turf in all but the smallest settlements. They play a significant part in making sure that the daily violent death toll regularly tops 25.

Meanwhile, hooded hunger-striking prisoners with their mouths sewn shut and threatening to drown each other, have drawn public attention to the limitations of tough new laws aimed at rounding up suspected criminals. Detention centres are full to bursting and 71 per cent of inmates have not even been convicted, serving time for the inefficiency of the courts.

The protagonists of Nicaragua's hottest crime issue are former fighters from both sides of the conflict that ended in 1990.

But according to sociologist, Mr Oscar Rene Vargas, "this time there is no political project. The re-armed bands dedicate themselves to bus hold-ups, livestock stealing and protecting their territory from police or military incursion."

Honduras was spared a full blown internal conflict but it did experience a series of military regimes. Demilitarisation forced by regional trends is under way accompanied by rising numbers of assaults, car theft and drug trafficking. But bank robbing is the national speciality.

The head of the Honduran Human Rights Commission, Ramón Custodio, is one of those who sees the armed forces' hidden hand. "It is curious that the military bank is virtually the only bank that has not been touched by this phenomenon," he says.

Even the tranquil image of Costa Rica has been sullied by rising crime and the country once known as the Switzerland of Central America can no longer claim to be a world apart. The economic problems underlying this increase in crime were precipitated in part by the regional peace process. The ending of the wars in Nicaragua, El Salvador and Guatemala stripped Costa Rica of the finance it once enjoyed from governments anxious to keep neighbouring communists at bay.

Governments across the region are trying to curb jndicial corruption and restrict the leeway for criminal abuses of military power. However, strapped by commitments to international creditors to restrict public expenditure, they have found tougher laws against criminals an easier solution than serious attempts to address the social and economic roots of the problem.

Company taxation method reviewed

By Anne Counsell in Washington

The US Treasury yesterday said it would examine the possible use of formulary apportionment to assess the tax liabilities of multinational corporations.

This method divides up e company's global profits to determine taxes due in the country of operation, rather than the present international norm, the "arms length principle", under which each country taxes the multinationals' operations.

Mr Lawrence Summers, US Treasury deputy secretary, said this move should not be interpreted as a weakening of US support for tbe arms length principle, bnt if this were to become unworkable in the future the US would co-operate with its trading partners to develop a consensus, multilateral alternative.

Mr Todd Malan, executive director of the Organisation for International Investment, which represents the interests of foreign multinationals in the US, said that if the review was fair and straightforward it would put the issue of formulary epportionment to rest.

AMERICAN NEWS DIGEST

Fewer families in US poverty

Americans' income edged up last year for the first time in six years and fewer families are living in poverty, the Census Bureau reported yesterday. The report, likely to be welcome news for President Bill Clinton's re-election campaign, showed median household income of $34,076 in 1995, up 2.7 per cent from 1994.

At the same time, the bureau said there were 36.4m people living in poverty in the US last year, 13.8 per cent of the population. That was down from 14.5 per cent a year earlier, moving 1.6m people out of poverty. The poverty level for a family of four was $15,569 in 1995. In addition to the overall drop in poverty, the number of poor children in the country dropped from 15.3m to 14.7m from 1994 to 1995, the bureau said.

However, despite the increase in median income, it has not yet returned to its 1989 level of $35,421 in terms of 1995 dollars, and the Midwest – with a 7.2 per cent increase in median income – was listed as the only region which made a significant financial gain from 1994 to 1995.

AP, Washington

Haiti swaps jobs for aid

Haitian senators approved the sacking of one out of every six civil servants in order to meet the conditions for urgently-needed foreign aid in a vote on Wednesday. When the civil service reforms and the privatisation of several state enterprises are signed by President René Préval, Haiti will have access to $300m from foreign creditors and donors. Just under a half of Haiti's budget depends on foreign aid.

The job cuts are likely to worsen industrial unrest but government officials said that they expected many of the 7,500 posts to be shed by voluntary redundancies, early retirement and freezing of vacancies. Municipal workers have been on strike since Wednesday in the capital, Port-au-Prince, because they have not been paid for several months. Mr Emmanuel Charlemagne, the mayor, said the city was broke and that the government had not yet responded to his appeal for $400,000 to meet outstanding wages.

Canute James, Kingston

Colombian trade expands

Colombia has made important strides in liberalising foreign trade and stabilising its economy, resulting in strong economic growth and rising investment, the World Trade Organisation says in its latest report on the country's trade regime.

The report, discussed by WTO members this week, notes that since 1990 Colombia's economy has expanded by over 5 per cent a year. Inflation has dropped from more than 32 per cent to under 20 per cent and continues to fall.

Tariffs have been simplified and cut to an average of 11.5 per cent, while non-tariff barriers to trade have been scrapped in all but a few sectors including agriculture and car manufacture. Colombia has also reduced its dependence on traditional exports such as coffee, oil and coal, from over 60 per cent to less than half of total merchandise exports between 1991 and 1995.

Though the US remains Colombia's largest trading partner, trade with the region has greatly expanded, especially with Bolivia, Ecuador, Peru and Venezuela, Colombia's partners in the Andean Group free trade area.

Liberalisation has also encouraged the growth of services such as financial services, transport, telecommunications, tourism and retailing, the report says.

Frances Williams, Geneva

Municipal elections will signal appetite for change

Cardoso's hopes of second term hang on local polls

Brazil's reformist president will be closely watching the fortunes of his party, writes Jonathan Wheatley

When Brazilians vote in municipal elections next Thursday, how they do so will determine more than their choice of mayor end local councillors. Also at stake are President Fernando Henrique Cardoso's hopes of a second term in office and the future of his reform programme.

Opponents of Mr Cardosa would use a setback for him in the municipal elections to argue that he is out of tune with public opinion and should not be given an opportunity to stand for a second term in 1998, which is currently not permitted under the constitution.

To make the necessary constitutional change, Mr Cardoso requires the support of 308 out of 513 congressmen in the lower house. At present, he is probably 40 or 50 votes short of that target. When congressmen come to decide on how to vote on the constitutional issue they will have to take into account how their parties' candidates have done on Thursday.

The right to run for re-election would greatly enhance Mr Cardoso's ability to push through Congress reforms needed to balance public accounts and secure Brazil's new economic stability.

The vote next week is the first electoral test of Mr Cardoso's government since he was helped to power in January 1995 by inflation-beating reforms he devised as finance minister. The reforms are still popular – monthly inflation is running at 0.1 per cent in São Paulo after reaching 50 per cent in June 1994, while average earnings have risen 30 per cent in three years – but Mr Cardoso's honeymoon with the electorate is over. Fewer import controls and e drive for competitiveness have led to a wave of factory closures and lay-offs and many Brazilians are impatient for progress on social policies.

Cardoso: honeymoon is over

Opinion polls show candidates of Mr Cardoso's centrist Social Democracy party (PSDB) trailing in several key state capitals. In Belo Horizonte, the capital of Minas Gerais state, polls show the PSDB with a slight lead over the leftwing Workers party, the PT. But in Rio de Janeiro, the PSDB candidate, Mr Sergio Cabral, is in second place to Mr Luiz Paulo Conde, of the centre-right Liberal Front party, or PFL. In Fortaleza, capital of Ceará, the PSDB is in fourth place; the centre-left Democratic Movement party (PMDB) candidate seems set to win at the first round.

In São Paulo Mr José Serra, Mr Cardoso's candidate, is running a poor third to Mr Celso Pitta of the conservative Progressive party, or PPB. Mr Pitta is backed by Mr Paulo Maluf, the outgoing PPB mayor, a presidential hopeful and a strong opponent of changing the constitution.

There are, however, reasons for the government to take heart. One is thet in Brazil's 47 cities with more than 200,000 inhabitants, a second contest will be held on November 15 between the two leading candidates if none achieves an absolute majority on Thursday.

The PSDB has several candidates well placed to make it to the second round and form winning alliances. In São Paulo, if Mr Pitta enters a second round, the PSDB and the PT, supposedly enemies in Congress, may unite to defeat him.

Another is that candidates from the PFL, Mr Cardoso's allies in Congress, are also likely to do well. Moreover, the PFL is one of few parties able to direct how its members vote in Congress. Elsewhere in Brazil's ill-disciplined, multi-party system, a candidate's party membership is of less importance. For instance, the PPB is nominally a member of Mr Cardoso's alliance, but Mr Maluf's presidential ambitions may place him among the opposition.

In fact, the PPB, with 90 deputies, has yet to take a position on changing the constitution. If Mr Maluf emerged strengthened from the elections, he could probably carry half his party against Mr Cardoso. On the other hand, there is talk that Mr Maluf could be persuaded to postpone his ambitions if the government supported him in a bid for the governorship of São Paulo state.

Mr Cardoso'e snpporters are likely to begin efforts to change the constitution soon after the vote next week, whether that means capitalising on government successes or striking early before Mr Maluf can organise forces against them.

The danger is that efforts to change the constitution could distract Congress from Mr Cardoso's reforms whicb include job cnts in the bureaucracy, as well as tax and welfare changes. The elections themselves, in which 125 congressmen are running for local office and many more are dedicating all their attention to campaigning for colleagues, have brought Congress to a virtual etandstill in the past two months.

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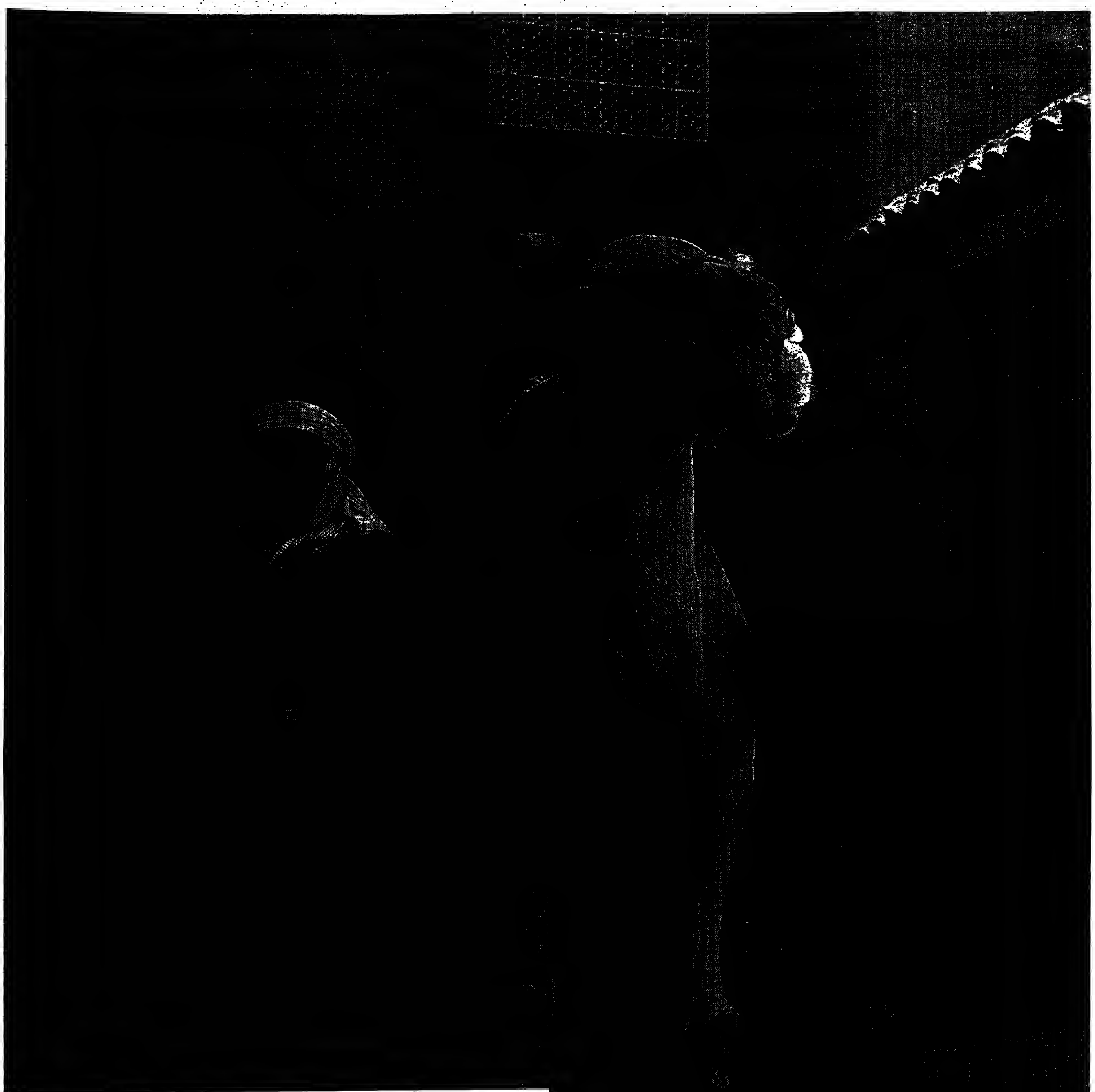

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Japan 'sorry' over islands row death

By William Dawkins in Tokyo and Tony Walker in Beijing

The Japanese government yesterday expressed condolences over the drowning of a protester near the disputed Diaoyu islands in the East China Sea. Beijing described the news as "regrettable" while Taiwan urged restraint and said talks with Japan were planned for next month in a bid to resolve the issue.

The protester, Mr David Chan, a Hong Kong citizen, and three others were aboard a cargo ship from Hong Kong which had sailed to the rocks, called Senkaku in Japanese and Diaoyu in Chinese, to protest against Japan's ownership of the islands, also claimed by China and Taiwan.

They jumped overboard after Japanese coastguard boats prevented their ship from approaching the island. The ship yesterday left the islands and was believed to be sailing towards Taiwan.

Mr Chan's is the first death in the protests, sparked off in Hong Kong and Taiwan by a visit to the islands last month by an extreme rightwing Japanese youth group, which repaired a lighthouse there, seen by Japan's Chinese-speaking neighbours as an unwelcome beacon of sovereignty.

The islands row is a deep embarrassment to the Chinese and Japanese governments. Officially, neither wants to press its rival claims too hard for fear of damaging deep and extensive economic relations, the most important bilateral partnership in east Asia.

Mr Shen Guofang, China's foreign ministry spokesman, yesterday called on Japan to "match words with deeds" over the islands. Beijing has demanded Tokyo stop Japanese nationalists seeking to buttress Japan's claims over the potentially resource-rich islands by erecting structures such as the lighthouse.

Japanese officials say they can do nothing because the rightwing group has not broken Japanese law. Privately, they admit it is very difficult to control.

Japanese attempts to strengthen claims to the islands has stirred bitter opposition in "greater China", provoking demonstrations in Taiwan and Hong Kong. The Beijing authorities have prevented protests, but the Chinese press has maintained a barrage of criticism.

Mr John Chang, Taiwan's foreign minister, yesterday dismissed claims that Taipei was concerned only with fishing rights around the disputed islands and stressed Taiwan's claims to sovereignty. "The two issues cannot be divided," he said. "Our basic position is firm and non-negotiable."

Additional reporting by John Ridding and Laura Tyson

Tan due to be sentenced in HK for Carrian loan fraud

Hong Kong's High Court is today due to hand down sentence on a man who epitomised the classic entrepreneursbip beloved by the territory's banks but left them with notbing more than debts and an after-taste that prompted a tightening of lending policy.

But even as Mr George Tan, who pleaded guilty last week to two fraud charges involving US$238m against Bumiputra Malaysia Finance and parent Bank Bumiputra Malaysia, awaits sentencing, Hong Kong is counting the cost of a case that took 13 years to come to court. There is the HK$210m (US$27m) bill of legal and investigation costs; and there are the murky deaths and suicides linked by their ties with the Carrian group.

Also worrying, according to some of the older hands in Hong Kong's financial services community, is whether all those involved in the affair have been brought to book, and the fact that a number of other companies are displaying all the signs of being mini-Carrians in the making.

"I think these sorts of empires are capable of being built at almost any time," says Mr Stephen Clarke, director of Anglo-Chinese Corporate Finance.

Carrian's spectacular rise and fall began in 1979 when Malaysian-born Mr Tan bought a locally-listed company and set about ecquiring properties, restaurants and ships.

"A lot of peopls felt nervous about what he did, because be always seemed to pay high prices but miraculously seemed to sell them at even higher prices, but – as the case is about – were they really sales?" says Mr Nick Sibley, a stalwart of the Hong Kong financial services industry and depnty chairman of Wheelock NatWest.

Mr Tan admitted to persuading banks to lend him money without revealing the true extent of his group's debt.

That Mr Tan was able to continue his buying spree in the face of widespread nervousness about what he was up to says much about his own personality – "mesmerising", according to those who remember him during those times. His *chutzpah* was legendary: one banker on a loan-collecting mission was at last admitted to Tan's office only to be shown a qneue of his peers also demanding repayment and told blithely: "Look outside, there's three or four other bankers all waiting to lend me money."

But it also speaks volumes for the "bubble" mentality then presiding in Hong Kong. "People just saw George Tan walking on water, and never really scrutinised the company. It's amazing how intelligent people fall into these traps," says Mr Marc Faber, a fund manager. When the bubble burst, precipitated by the property crash of 1982, Carrian was estimated to have net debts of about HK$7.8bn.

George Tan in October 1983 after his arrest: he is due to be sentenced today

Today, bankers are keen to point the finger at Wardley, reckoned to have arranged some HK$952m of loans for Carrian. The investment banking arm of Hongkong Bank has ainee been renamed HSBC Investment Banking. "Tan had very strong support from tha bank, and to some extent that influenced people," said one. Says another: "Hong-Kong Bank were the ones that promoted him most aggressively ... all the chaps that basically went bust then were backed by the bank."

What happened in the intervening years showed, according to one observer, thet Hong Kong's legal system – imported from England – was simply not equipped to deal with complex cases.

Mr Tan was acquitted on fraud charges in 1987, and government prosecntors were unable to pin him down in a number of subsequent court appearances.

His guilty plea came at a cost: the prosecution has agreed to drop 15 other fraud and corruption charges.

Bankers wary of their risk exposure are already wondering when the next Carrian will emerge.

"On a smaller scale, these sorts of things are happening all the time," says Mr Clarke, "China, being so big, is a very convenient place to apparently lose money."

Louise Lucas

Tokyo moves to deregulate securities

By Gerard Baker in Tokyo

The Japanese government yesterday committed itself in principle to further deregulation of the country's securities markets yesterday but gave few details of any specific reform plans.

In a prepared speech to a conference of aecurities brokers Mr Wataru Kubo, the finance minister, said the governmant intended to review the current range of regulations that restrict broking activities, with a firm view to expanding market opportunities.

Mr Kubo, whose speech was delivered through the senior bureaucrat at the finance ministry, Mr Tadashi Ogawa, acknowledged the need to make Japan's market, now among the most tightly controlled, more competitive with US and European markets.

He implicitly accepted the strong criticism directed at the ministry especially from overseas institutions that the restrictions diminished Tokyo's status as a leading financial centre. Improving the functioning of the economy would require measures aimed at facilitating the flow of funds from Japan's large pool of domestic savings to corporations, he said. There was a pressing need to meet the increasingly diverse financial demands of customers with a greater range of products.

The government has also promised to work to improve the transparency of the financial system, following the rash of financial crises of the last few years. The rapid growth of bad loans on banks' balance sheets and specific problems such as those at Daiwa Bank last year, in which it was revealed that the bank had covered up more than $1.1bn in losses on US treasury bonds over a 10-year period, have served to emphasise the lack of openness among Japanese financial institutions. Disclosure standards are mnch lower in Japan than in most leading economies.

Though gradual deregulation of the securities business has been in progress for several years, opening markets to wider competition, there are still many areas of activity limited or banned completely. Foreign brokers in Tokyo have recently renewed their calls for sweeping reforms. The main objects of criticism are fixed commissions on smaller securities trades, taxes on share transactions, and the total ban on a number of derivative financial products, such as certain types of futures and options.

ASIA-PACIFIC NEWS DIGEST

Japan general election move

Mr Ryutaro Hashimoto, the Japanese prime minister, yesterday won his coalition partners' agreement to convene parliament today, the procedural step needed to call a general election on October 20. The accord, which was expected, removed the final uncertainty overhanging the conservative Liberal Democratic party's election plans. Technically, Mr Hashimoto does not need his partners' accord to call an election. But his two centre-left coalition partners, the New Harbinger party and the Social Democratic party, were tempted to force a lengthy parliamentary debate to try to delay the poll, to seek more time to repair their internal disarray.

Yesterday, they conceded he had the authority to call a general election. This will be the first since the LDP lost its majority three years ago, bringing an end to nearly four decades of stable one-party LDP government. The latest opinion polls indicate the LDP will again fall short of a majority, but emerge as the dominant partner in another coalition. The SDP is expected to lose seats and the NHP has suffered from high profile defections to a new party. *William Dawkins, Tokyo*

Thai exports grow 2.9%

Thailand's central bank yesterday said export growth for the first seven months of the year was 2.9 per cent year-on-year, not 3.8 per cent as orginally reported. The revision, mostly based on July's export growth, pushed up the country's trade deficit to Bt35.3bn ($1.4bn) for July and increased the current account deficit to Bt30.8bn. The central bank said the current account deficit for the first seven months of the year was now averaging above last year's 8.1 per cent of GDP.

Despite this gloomy external trade picture, the country recorded a balance of payments surplus of Bt2.6bn in August and foreign reserves held steady at $39.4bn despite a run on the baht that month which cost the central bank at least $1bn. *Ted Bardacke, Bangkok*

Taliban closes in on Kabul

The Afghan government of President Burhanuddin Rabbani was last night fortifying defences around key government buildings in Kabul, the capital, after reports that the Taliban militia had entered some of the city's suburbs, ignoring calls by the UN Security Council for an immediate ceasefire. Western diplomats in neighbouring Pakistan predicted a possible bloodbath in the war battered city as the Taliban – former students of Islamic religious schools – penetrate the government's front lines to reach the presidential palace and other key buildings.

In New York, the Security Council called for a ceasefire and talks between rival Afghan groups that could end conflict in Afghanistan which began with the Soviet invasion of 1979. *Farhan Bokhari, Islamabad*

Megawati hearing delay

An Indonesian judge delayed until next month a decision on whether he should hear an action brought by Indonesia's leading dissident, Ms Megawati Sukarnoputri, challenging her removal as head of an opposition party in favour of a government-sanctioned candidate. The former leader of the Indonesian Democratic party is seeking reinstatement as the party's chairman and suing six defendants, including armed forces chief Gen Feisal Tanjung, for damages. *Manuela Saragosa, Jakarta*

US sends timely reminder to South Korean hardliners

John Burton on significance of Washington's espionage arrest

In arresting an alleged spy for South Korea, the US has sent a sharp warning to hardliners in Seoul not to use the recent North Korean submarine intrusion as a pretext to wreck Washington's nuclear freeze agreement with Pyongyang.

The timing of the espionage arrest of Mr Robert Kim, a computer specialist at the US Office of Naval Intelligence, appears to have been deliberate.

Although he had bean under surveillance by the Federal Bureau of Investigation since May, his arrest on Tuesday night came less than 24 hours after South Korea's defence ministry demanded the revival of the annual Team Spirit war games with the US in response to last week'a submarine incursion.

Angry US officials regarded the request as a South Korean pressure tactic that could endanger the 1994 North Korean nuclear freeze pact, which the administration of President Bill Clinton believes is one of its biggest foreign policy successes.

The US had promised Pyongyang to suspend Team Spirit in return for North Korea abandoning its suspected nuclear weapons programme.

The arrest appeared to be meant to embarrass the South Korean defence ministry as Mr Kim is alleged to have passed on top-secret US documents to a South Korean naval attache in Washington.

Mr Warren Christopher, the US secretary of state, said he was "very disturbed" by the case.

Timing of the arrest for spying appears to have been deliberate

The affair reveals long-slmmering differences between Washington and Seoul over North Korean policy.

The US, under both the present administration and that of President George Bush, has favoured a policy of cautious engagement with Pyongyang as a means to mediate between Seoul and Pyongyang.

But the South Korean government, particularly the national security agencies, have barely concealed displeasure about the evolving ties between its closest foreign ally and its bitterest foe.

The resentment in Seoul reflects a resurgent nationalism and a belief that South Korea should lead North Korean policy among the western powers.

The Team Spirit military exercise has played a highly symbolic role in ths diplomatic manoeuvrings between the two Koreas and the US over the past five years.

North Korea has abhorred Team Spirit because every time the military exercise is held it forces Pyongyang to use precious stocks of fuel as it places military forces on alert.

The US regarda the renewed South Korean call for Team Spirit as an attempt to derail the 1994 nuclear pact.

The South Korean defence ministry argues that tha North Korea submarine intrusion reveals the hostile intentions of Pyongyang and justifies the resumption of Team Spirit.

The defence ministry's request for Team Spirit has not been officially endorsed by the South Korean government in an indication that there is a struggle occuring between hawks and doves in Seoul.

The US exposure of the spy case may strengthen the position of government doves, but it also threatens to create a backlash among hardliners who want Seoul to withdraw its crucial financial snpport for a $5bn nuclear reactor project for North Korea that was promised under the 1994 nuclear deal.

The US-South Korean diplomatic dispute has overshadowed the event that triggered it.

"They must be laughing up in Pyongyang," said a US official in Seoul.

"A week ago, they were facing unanimous international condemnation" for the submarine incursion, "but now they have a way out".

Nonethelesa, he blamed the South Korean defence ministry's "inflammatory" demand for Team Spirit as the cause for the public diplomatic row.

UK fails to quash quotas on China toys

By Caroline Southey in Brussels

The UK government failed yesterday in its attempt to have EU quotas on Chinese toy imports removed following an interim opinion from the European Court of Justice which rejected claims the regime was protectionist.

The Advocate General, in an opinion likely to be upheld by the court, argued that Britain had failed to provide sufficient evidence to show the quotas were excessive. The opinion also argued that Britain should be ordered to pay costs.

The EU introduced the regime in 1994 to replace a plethora of national quotas. Britain opposed the decision but was outvoted 11 to 1 in the Council of Ministers.

The Advocate General's opinion was attacked by EU's toy industry which backed Britain's case against the Council of Ministers. The UK had argued that the council had not taken account of evidence that the quotas harmed the EU toy industry and that they were disproportionate.

The opinion, if backed by the court, will be a setback for the EU toy industry's campaign to have the quotas removed. Mr Maurits Bruggink, secretary general of the Toy Manufacturers of Europe, which represents 80 per cent of the EU's toy industry, said the federation was "extremely disappointed" by the opinion.

He added that there was not a "shred of evidence to show that the quotas have saved or created one job in the EU" and that the industry would continue to suffer if the opinion was upheld by the European Court. "We have been suffered a decline ever since these quota limits were introduced. The toy industry is a global market. We all benefit from free competition."

Mr Bruggink said the TME would press ahead with its campaign, adding that a number of EU officials in the Commission who had originally supported the regime no longer did so. "We hope to be able to persuade other EU governments too," he said.

The UK, backed by the German government, argued that the council had failed to take into account the interests of EU manufacturers, retailers and consumers.

It also argued that the quotas were excessive in relation to the goal they were seeking to achieve - the protection of the Spanish toy industry.

The Council's defence was that its goal had been to replace national rules with a single EU-wide system.

It also rejected claims that the needs of the EU's industry had been ignored, arguing that Britain's position only reflected one section of the EU toy industry - manufacturers which had transferred production to China.

The EU revised the quota regime five months later after strong protests from importers. It agreed to increase quotas in stuffed toys, which was one of three categories, but kept the limits on non-human plastic figurines and "miscellaneous" toy weapons. The change led to an anomaly under which the Star Trek figure Captain Kirk was allowed in while Dr Spock, ruled a non-human plastic figure, was not.

WORLD TRADE NEWS DIGEST

Drive to curb disc pirates

In a fresh effort to curb piracy, the international music industry is streamlining the process of issuing licences to manufacturers and distributors of compact discs and cassettes. Henceforth all licences must be approved by two central bodies, the International Federation of the Phonographic Industry (IFPI), which represents the world's record companies, and the Bureau International d'Enregistrement et de Reproduction Mécanique (BIEM), on behalf of composers and musicians.

Under the old system, licences were issued by scores of national organisations representing different sectors of the music industry, which meant that the level of scrutiny varied from country to country. It was relatively easy for manufacturers or distributors of unauthorised recordings to obtain licences in some countries.

Piracy is one of the main problems facing the international music industry, which generated global retail sales of $40bn in 1995 but "lost" estimated sales of over $2bn to pirates. *Alice Rawsthorn, London*

US opposes Apec expansion

The US is opposed to adding new members to the Asia Pacific Economic Co-operation (Apec) forum when a three-year moratorium on expanding membership expires with November's summit in the Philippines, a senior US trade official said.

A number of countries, including Peru and Colombia from Latin American and India, Russia and Vietnam from Asia, have expressed a desire to join the 18-member organisation. The issue is expected to be contentious, with Association of Southeast Asian Nation (Asean) countries making a big push for their new member, Vietnam, to be included right away.

"We don't think the institution is ready to take on a bunch of new members at this time," said Ms Nancy Adams, assistant US trade representative for Apec affairs. "There are a substantial number of countries in this camp, thinking the same thing." Ms Adams said it was hard to justify letting in just one country, such as Vietnam, when other countries, especially from Latin America, had submitted applications to join Apec five years ago. *Ted Bardacke, Bangkok*

Investment down in Indonesia

The value of Indonesia's foreign investment approvals is expected to fall 30 per cent to $27bn this year compared with 1995's figure, though the number of projects is expected to increase.

Mr Sanyoto Sastrowardoyo, investment minister, blamed the drop in value on the fact that foreign investment approvals last year included eight large projects, mainly in the petrochemicals sector. Foreign investment approvals in 1995 totalled $39.9bn.

Foreign investment approvals in the period from January 1 to September 15 this year amounted to $24.61bn - no comparable year-earlier figure was given. Historically, only about half of all approved projects are actually realised. *Manuela Saragosa, Jakarta*

■ Vietnam has picked South Korean industrial conglomerate Daewoo to build and part-finance a $376m highway that will be the country's first such project on a build-operate-transfer basis. The 130km road will link Ho Chi Minh City with the port of Vung Tau. Construction should start this year. *Jeremy Grant, London*

A former Soviet republic gives red-carpet treatment to a Korean carmaker

Passports for Uzbeks to Daewooistan

The people of Uzbekistan can now buy a Daewoo car on credit from a Daewoo bank, drive to an electronic store to buy a Daewoo TV set and video recorder and use a Daewoo telecommunications network to call home. They call their country Daewoostan.

Only a handful of international companies have risked more than a few million dollars in Uzbekistan, the landlocked former Soviet republic which, though stable, is still burdened by heaps of red tape, an unconvertible currency and delays in market reforms.

Daewoo, the third biggest South Korean carmaker, says by contrast it has invested and lent close to $1bn for nine projects in the past four years. The Uzbeks have responded by giving Daewoo red-carpet treatment without equal in the former Soviet Union.

Daewoo is the largest supplier of telecommunications equipment in Uzbekistan, outbidding competitors with soft loans and investment pledges, as the country rushes to upgrade its decrepit phone network fully by 2010. It buys cotton, is due to open a fully licensed bank and is considering new assembly lines for trucks and excavators.

Daewoo's investments promise to help Uzbekistan steer away from its traditional reliance on cotton exports. By 2000 Daewoo hopes to produce 160,000 estate cars, compact cars and mini-vans a year, with 70 per cent of the parts made in Uzbekistan.

Six joint ventures and several local enterprises are due to start producing car parts within a year. "Daewoo is like a locomotive," says Mr Farkhod Maksudov, director general of the semi-governmental Foreign Investment Agency. "It pulls in other investments."

Mr Hee Choo Chung, Daewoo's managing director in Uzbekistan, explains why he has decided to risk so much in one country. "Uzbekistan has good prospects and they are only improving. If we move in now I'm sure the government will appreciate that." He adds: "In the beginning they thought every foreigner was the same, they were suspicious. Now we are gradually being appreciated."

Uzbekistan's appreciation has come in the form of lavish tax holidays and preferential treatment, at the expense of other investors. The car venture has a full tax holiday for five years; buyers are wooed with soft government loans and an exemption on the 5 per cent road tax.

An import tariff on cars of about 50 per cent discourages competitors and on October 1 an excise tax on imported cars of 40 to 60 per cent should persuade the last remaining western car dealers to skip town. "We will have no choice but to buy Daewoo cars," one Tashkent driver laments.

A Daewoo car plant in Uzbekistan: after calisthenics workers put in 10-hour days plus the occasional Saturday

The Uzbek car plant is just one of a number of forays by Daewoo into regions where other motor manufacturers would fear to tread. This year, it took control of Poland's biggest car company. Earlier, the group bought into the former Romanian state carmaker as part of its strategy to build a presence in regions "overlooked" by bigger rivals.

Mrs Olga Rahimjanova, planning director for the Uzbekistan venture, says Daewoo has little trouble converting its local revenues back into dollars, while most other investors can convert only a fraction because the government is short of hard currency. The car plant has a Russian order for 7,000 estate cars and is exempt from the obligation to sell part of hard currency revenues to the central bank.

Even Daewoo cannot escape some of the pitfalls of Uzbekistan's go-slow approach to market reforms, however.

Strapped for cash, the government took much longer than expected to come up with its half of the investment. Intent on maintaining full control of its economy, it has already issued three decrees this year full of instructions to the venture. Government approval of this year's business plan took four months.

The government at first took full responsibility for marketing and servicing of the cars but failed to set up proper dealerships or service stations. Daewoo intervened but has managed to set up only a handful of dealerships and servicing stations to service nearly 10,000 Daewoo cars.

For the Uzbek workers, the Korean work mentality takes getting used to. After collective calisthenics in the morning, the car factory's 2,600 workers put in 10-hour days, plus occasional Saturdays. Many will have had a first taste of such techniques in stints on the production line at Daewoo's plants in South Korea, where groups of non-Korean workers are regularly taken for up to three months learning on site before being sent back home to train colleagues.

For Daewoo, marketing in the former Soviet Union has brought some surprises as well. Its planning director says Uzbeks prefer their cars white while the Russian clients will take anything other than white. And both scorn the cheap compact car in favour of the most deluxe version of the estate car, a model Daewoo had not even planned to produce for fear Uzbeks could not afford it.

Sander Thoenes

[illegible]										
Cardiovascular	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Alimentary/Metabolism	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Central nervous system	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Anti-infectives	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Respiratory	3,080	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	170	160
Blood agents	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Genito-urinary	1,842	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Others	5,822	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	28,990	11,478	[illegible]	7,568	[illegible]	6,227	[illegible]	1,838	1,011	1,021
Change*	7	1	6	5	[illegible]	10	[illegible]	3	[illegible]	[illegible]

Source: IMS International [illegible] market only. *Increase [illegible] currencies

World drug sales up in top ten markets

By Daniel Green

The value of prescription drug sales in the world's 10 biggest markets hit $70bn for the first half of 1996, an increase of 6 per cent on the same period of 1995.

Sales growth accelerated during June in the US but slowed in many European countries, leaving the overall rate of growth unchanged from the first five months of the year.

US sales were $29bn, a rise of 7 per cent on the first half of 1995. Growth was driven by blood agents, which include a new class of drugs designed to cut cholesterol levels, and by nervous system drugs, which include Prozac, the anti-depressant made by US company Eli Lilly. US blood agent sales rose 21 per cent to $1.46bn while nervous system drug sales rose 14 per cent to $5.36bn for the first half.

Sales in Japan, the world's second biggest market, still showed the effects of a mild influenza season and mandatory drug price cuts in April.

Sales grew only one per cent, at constant exchange rates, to $11.5bn. Respiratory drugs and anti-infectives have been hardest hit by the low demand to treat flu. Sales fell 10 per cent to $981m and 18 per cent to $1.34bn respectively.

Italy was the fastest growing of the large European countries, with sales up 12 per cent to $4.5bn. But the rise is partly a rebound from two years of slow or negative growth as the Italian government implemented a series of cost control measures in healthcare.

The UK was the second fastest growing, with sales up 10 per cent to $3.23bn. The star performer was the blood agent category, where sales grew 44 per cent to $79m. But the UK remains a small market in value terms by comparison with Germany and France, where traditionally doctors have prescribed more drugs.

German sales rose 6 per cent to $8.46bn, while sales in France rose 5 per cent to $7.57bn.

By medical area, heart drugs remain the biggest category with sales up 4 per cent to $12.34bn. The relatively slow growth is the result of heavy competition as older drugs lose patent protection, allowing other companies to make them.

Digestive eystem drugs come next, with sales at $12.04bn. Both categories are being caught up with by nervous system drugs.

Strong field for GSM in Romania

By Virginia Marsh in Budapest

France Télécom, Stet of Italy, Tele Danmark and Motorola of the US are among the international telecommunications companies bidding for two GSM (global system for mobile telecommnnications) licences in Romania.

The tender, which closed yesterday, has attracted considerable interest as Romania is both eastern Europe's second largest market as well as one of the last countries in the region to set up a digital system on the GSM standard.

The Spanish company Telefonica, which had earlier attempted to block the tender, also entered a bid. The company says it was promised one of the GSM licences when it set np a local analog mobile telephone system in 1992 end had threatened legal action. The Romanian communications ministry says Telefonica was only given the right to bid for a GSM licence.

The tender, which has been pending for over a year, represents one of Romania's greatest efforts to attract foreign capital since the collapse of communism. Direct foreign investment since 1990 bas amounted to $2.047bn, far below levels elsewbere in the region.

Successful bidders will pay $50m for each of the 10-year concessions and are both expected to spend a further $350m-$500m on installing and operating the two digital systems. The winners will be required to cover main transport routes within 18 months and at least 85 per cent of the country within five years.

Analysts say there is considerable potential for GSM in Romania, given the poor quality and low density of terrestrial lines. At present, there are about 11 lines per 100 inhabitants, compared with nearly 20 per cent in Hungary. The ministry said that six consortia had entered the tender and that bids would be evaluated by end-October.

Canada venture to open Kyrgyzstan oil refinery

By Bernard Simon in Toronto

Kyrgyzstan will commission its first oil refinery next week when it launches a new joint venture between Kyrgoil Corporation, a small Calgary-based company, and Kyrgyzneft, the state-owned oil company.

Kyrgoil is one of about a dozen Canadian investors active in Kyrgyzstan. Cameco, the Saskatchewan-based mining group, is the biggest foreign investor in the country. Its Kumtor gold mine is due to begin production later this year.

Under an agreement concluded with Kyrgyzstan last December, the Kyrgoil-Kyrgyzneft joint venture, known as KPC, was granted exclusive rights to renovate 628 oil wells that were drilled in the 1940s and 1950s but fell into disrepair. The wells currently produce only about 1,500 barrels a day.

The accord also included rights to drill new wells in the Fergana basin in south-west Kyrgyzstan. KPC aims to increase production from its concession area to 25,000 b/d within the next three years.

Kyrgyzetan currently imports all its refined oil requirements, mainly from Uzbekistan. Oil makes up about 20 per cent of total imports. The new refinery, which will be officially opened on October 5, will have a capacity of 10,000 b/d and is expected to supply one-quarter of domestic oil consumption.

Earlier this year Kyrgoil made a C$37.4m (US$27.5m) equity offering in Canada and the UK. Its shares, which are listed on the Toronto stock exchange, have climbed from the issue price of C$1.30 to about C$2.70 this week.

Many US executives 'less well-paid'

By William Lewis in London

Chief executives of retail, wholesale and non-financial services companies in the UK have been paid more annual cash compensation than their US and Canadian counterparts, says a survey by the Conference Board, a US consultancy, and Monks Partnership, a leading UK executive pay consultancy, shows.

For example, the total median annual cash compensation – base salary plus annual bonus – paid to chief executives of UK companies in the non-financial services sector was $586,000 in 1994, the latest period for which complete data are available.

This compares with the median $543,000 cash compensation paid to chief executives of US non-financial services companies and $501,000 paid to Canadian chief executives.

However, the survey concludes that in most sectors, US directors' pay is still higher than in the UK. "In companies of comparable size, chief executive officer annual bonus and total cash compensation is highest in the US", except for three sectors "in which the UK ranks highest". The survey examined the pay of 1,660 US, UK and Canadian publicly-traded companies in 10 industrial sectors.

The data used in the survey were taken mainly from annual reports and regulatory filings from 1995. The sector comparisons cover companies with sales ranging from £750m to $1.99bn.

Monks stressed yesterday that the survey excluded profits made by directors from share options and other long-term incentive schemes, and instead focused on their "almost guaranteed" annual cash payments.

The report states that US and Canadian companies view share options and other long-term incentive schemes "as a satisfactory link between executive pay and company performance". But in the UK "increasing pressure from institutional investors is challenging this assumption".

The survey states that bonus payments in the US and Canada tend to be a higher percentage of basic salary than in the UK.

For chief executives of US manufacturing companies, the median annual bonus was 79 per cent of salary in 1994 against 24 per cent in the UK and 61 per cent in Canada. Nevertheless, the survey's findings yesterday surprised other pay consultants who have long argued that all elements of executive pay in the UK are lower than in the US.

The Greenbury committee on executive pay, parts of which have been annexed to the London Stock Exchange's rule book, stated that "specialist consultants have advised us that, for the most part, remuneration levels for directors in the UK lie within the range of European practice and well below American levels".

Names seek $7m to fight Lloyd's

By Jim Kelly in London

Litigating investors at Lloyd's of London who have refused to accept its rescue plan are being asked to help provide a £4.5m ($7.0m) fighting fund to try to prove that fraud lay behind the insurance market's heavy losses.

Organisers of the new merged vehicle for legal actions, the United Names Organisation, said in London yesterday at their first meeting that they were aiming to attract 1,000 of the market's so-called "refuseniks".

The group brings together Names who claim they are the victims of fraud at Lloyd's and were enticed into the market to "mop up" losses which insiders knew were ahead. Names are the individuals whose assets have traditionally supported the insurance market.

Mr David Harris, one of the organisers, said the "refuseniks" would be backed by another new body – the Friends of United Names – comprising those who believed they had been the victims of fraud but had signed the settlement.

The group said that while it was looking for annual subscriptions of about £1,500 from members over three years, it would be aided by several "very rich individuals" who wished to fight on "as a point of principle".

The United Names Organisation is to back three already existing legal challenges to Lloyd's. It will use the so-called Mason case to try to prove fraud and the Clementson case to try to prove that Lloyd's has acted in breach of European Union law. It will also seek to overturn amendments to Names' premium trust deeds which helped bring about the overall settlement.

Meanwhile, Lloyd's is preparing to issue writs against Names who have refused to settle. The first collection of 200 will be sent out on October 1. At least 50 Names are to be pursued for £1m each. Lloyd's is seeking £500m from 1,850 Names – 670 owing £150m in the UK, 635 owing £180m in the US and 253 owing £100m in Canada.

Now that the Lloyd's settlement has been accepted by the vast majority of Names, the market's financial recovery department is taking a tough line with the "refuseniks". Mr Harris said Lloyd's had taken up the role of "frightening people into accepting" the settlement. A spokesman for Lloyd's said the group's allegations were "bizarre" and "out of time".

Lloyd's said that yesterday the state of Missouri had signed up to an accord which meant that 99 per cent of the US Names now lived in states covered by the settlement. Only Arizona had refused to sign.

Link with England loses popularity

Supporters of an independent Scotland feel events are going their way

Two hundred and eighty-nine years after England and Scotland were merged into a single state, a movement which seeks independence for Scotland is riding high. The Scottish National party, currently holding its annual conference in the northern Scottish town of Inverness, is confident that events are going its way.

The dream of the SNP is to take Scotland out of its union with England and restore the independent state which disappeared in 1707. An independent Scotland as envisaged by the SNP would apply for separate membership of the European Union, have its own armed forces and a seat at the United Nations. But it would keep Queen Elizabeth as head of state even though it had its own kings for hundreds of years.

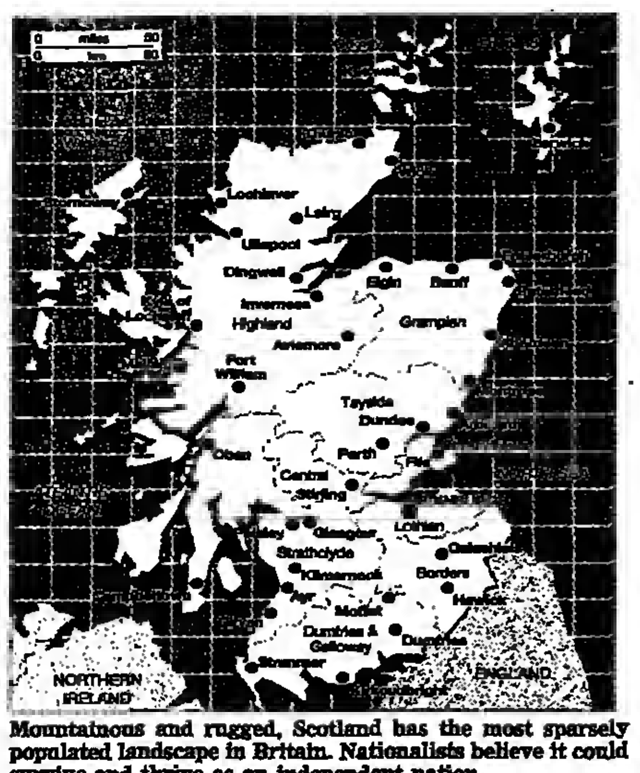
Support for independence has been steady at around 35 per cent of Scots questioned by opinion pollsters for about a decade. The SNP currently stands at 29 per cent in the Scottish opinion polls, second – but a long way short of – Labour, the main opposition party.

The independence movement has been gaining support intermittently since the 1960s. It represents one strand of a growing disillusionment in Scotland with the union with England. The other strand is the slightly more popular campaign for devolution – the creation of a separate Scottish parliament in Edinburgh but with Scotland remaining part of the United Kingdom. This is what the Labour party is promising if it wins the next general election. Labour, like the governing Conservative party, is firmly opposed to an independent Scottish state outside the UK.

The union of England and Scotland was a success in the 19th and early 20th centuries. But the decline of Britain's power on the world stage and the collapse of the heavy industry which was Scotland's economic base made many Scots disillusioned with Britain.

Scottish nationalism began in the 1920s almost as a romantic movement. For a time the nationalists envisaged Scotland becoming an almost isolationist state in the North Atlantic, detached from other power blocs. But since the 1960s, Scottish Nationalists have accepted the idea of membership of the European Union, which to many Scots makes the idea of independence seem less alarming."

The SNP denies that an independent Scotland would



Mountainous and rugged, Scotland has the most sparsely populated landscape in Britain. Nationalists believe it could survive and thrive as an independent nation.

Scotland is the 21st richest country in the world "despite the appalling waste of Scotland's vast resources over the last quarter of a century," Mr John Swinney, the Scottish National party's chief finance spokesman, said at its annual conference yesterday, James Buxton writes.

The party claims that far from Scotland being subsidised by England it actually subsidises England to the tune of £400m ($625m) a year. Mr Swinney pointed to UK government figures for 1993-1994 which he said showed that Scotland, with 8.8 per cent of the UK population, contributed 9.3 per cent of UK taxes.

"That's an extra £10 a week for every Scottish taxpayer," he said.

He challenged estimates used by the government to demonstrate that an independent Scotland would have a substantial budget deficit. The SNP's estimate allocates 90 per cent of government revenues from North Sea oil to Scotland.

A nationalist-led government in Scotland would aim to achieve full employment by means of high public spending, Mr Swinney said.

be worse off under independence than it is now, despite losing London's contribution to its public expenditure. It argues that the economy of Scotland would be boosted partly by obtaining 90 per cent of the UK's oil revenues. It would have high personal taxation but low business taxes, higher public expenditure and, the party believes, fewer jobless people.

The SNP has two of Scotland's eight members of the European parliament but only four of the 72 Scottish members of the House of Commons. It is not a party of wild extremists – members at its conference wear sober suits and ties – but very few members of Scotland's elite admit to belonging to it.

Nationalist spirits are high for two reasons. First, Labour, the dominant party in Scotland, has recently annoyed many of its supporters by insisting that Scots would first have to vote in a referendum for a Scottish parliament before the party would honour its pledge to establish one. Second, the nationalists calculate that because Labour's Scottish parliament would still be largely funded by London, it would in the longer term prove to be unworkable and unpopular.

If the SNP continues to gain popularity, its electoral support could reach the level at which, under the UK's voting system, it could win significant numbers of parliamentary seats from both the Conservatives and Labour, as it did in the 1970s. But the nationalist party does not expect to win the majority of Scottish parliamentary seats at the next election which, it is often claimed, would give it the right to claim independence.

James Buxton

Study sheds light on increase in CJD

By Nicholas Timmins, Public Policy Editor

Evidence that the increase in Creutzfeldt-Jakob disease in Britain over recent decades may well be real rather than simply the result of doctors looking more carefully for it has come from a study by the Office of National Statistics.

Deaths attributed to the degenerative brain condition that has been linked to bovine spongiform encephalopathy – BSE, or mad cow disease – have risen from around 20 to 30 a year in the early 1980s to the 30-to-50 range since 1989.

But a study of post-mortems on patients with dementia going back to 1979 shows no evidence that the post-mortem rate has increased. If anything, it has tended to fall.

"It therefore seems unlikely that an increase in post-mortems alone could explain the observed increase in deaths certified as due to CJD," an article in the latest edition of Population Trends concludes.

The study, however, does not fully refute the possibility that greater awareness of the disease among doctors – rather than a real rise in its occurrence – has led to its more frequent diagnosis. To tackle that, the UK government's Office of National Statistics and CJD Surveillance Unit are to carry out a retrospective search for biopsy and post-mortem material from people certified as dying from dementing illnesses to establish if past cases of CJD and other dementias have been misdiagnosed. CJD is a particularly difficult condition to diagnose with certainty.

Answers from that should provide a better baseline from which to judge whether the recent small rise in the disease has been real, the Office of National Statistics said yesterday.

● The British government yesterday admitted that the backlog of cattle awaiting slaughter under the scheme to eradicate BSE appeared "substantially" higher than its earlier estimates, Maggie Urry writes. It is urgently searching for more cold-storage capacity to accommodate carcasses in an attempt to increase the rate of slaughter, according to Mr Roger Freeman, the minister in charge of the cull programme designed to eliminate BSE.

Mr Freeman said that the government was contemplating contracting refrigerated ships, although these were "less convenient and more expensive than conventional means" of storing carcasses.

He hoped to make a statement on extra storage capacity in the next few days. However, he ruled out the idea that farmers could burn carcasses in open fields.

Trade figures send mixed message

By Graham Bowley, Economics Staff

Better exports to the US and South America helped cut Britain's trade gap with countries outside the European Union to its smallest level for 15 months in August but the deficit with EU countries more than doubled in July.

Official figures yesterday pointed to a weaker UK trade performance, raising fears that the current pick-up in economic growth led by stronger consumer demand could be sucking in imports. They cast doubt on UK companies' ability to maintain business in European markets where growth remains patchy.

The Office for National Statistics said the UK's overall trade gap with the rest of the world was a seasonally adjusted £1.2bn in July, higher than June's £1.1bn deficit and worse than the City of London expected.

The deficit with EU countries rose to £0.5bn from £0.2bn in June. Exports fell by 1 per cent in the month but imports from the EU rose 2.5 per cent. More encouraging was the trade gap with countries outside the EU, which fell to £0.5bn from £0.7bn in July. This was helped by a fall in imports from Switzerland and Norway and stronger exports to the US, Brazil and Saudi Arabia.

However, the trade performance was flattered by oil and erratic items. Stripping out these influences, the underlying picture was more disappointing, showing import volumes rose 2.5 per cent between June and July to record levels while exports fell 0.5 per cent.

This provoked worries that consumer demand could be exacerbating the UK's trade deficit by increasing demand for imports. This could potentially threatening a rise in interest rates to choke off growth.

However, some economists pointed to the UK's buoyant trade surplus on services and investment income which is more than matching the deficit in goods. This suggest that the visible deficit could be sustainable without a requiring a rise in interest rates.

● Expectations that UK interest rate will not rise over the coming year received a boost yesterday. This followed weaker than expected US economic data and a cut in Swiss interest rates, which suggested that mainland European and US rates could remain low.

UK NEWS DIGEST

'New image' draws tourists

Tourists are being attracted to Britain by a new fashionable image which contributed to a record 23.7m visitors last year and which could bring in up to 26m visitors by the end of this year.

Mr Anthony Sell, chief executive of the British Tourist Authority, said yesterday that Britain had become "a stylish, contemporary and vibrant destination".

Mr Sell, presenting the authority's annual report, said Britain's share of the world tourism market had increased to 5 per cent after a record low two years ago of 4.4 per cent. The momentum has continued this year and the BTA expects a 10 per cent increase in visitor numbers and spending by the end of the year. Two-thirds of visitors to the UK from other countries last year came from Europe and the American market revived to pre-1990 levels with 3.3m visitors spending more than $3bn.

Scheherazade Daneshkhu

■ ECONOMIC FORECAST

North-south gap widening again

The gap between the UK's rich and poor districts will grow in the next five years, thanks mainly to the increasing liberalisation of the British, European and world economies, says a report published today by Henley Centre, the strategic planning company.

The disparities between north and south, which narrowed in the recession of the early 1990s, are now widening again and will increase further in the years to 2001, says the survey.

"Recent rumours of the death of the north-south divide [in Britain] have been greatly exaggerated and regional divides are actually deeply entrenched in the structure of the economic system," say the authors. The gaps are also growing across the EU, putting pressure on the union's efforts to promote economic cohesion. This bodes badly for both monetary union and enlargement, the EU's biggest political aims, says Henley.

Stefan Wagstyl

■ TRANSPORT IN LONDON

Rail link costs rise by $120m

The cost of building a 5km extension of the Docklands Light Railway under the River Thames to Lewisham in south-east London has risen from $220m to $340m, the government will announce today.

Unrealistically low first estimates, increases in construction costs and financing charges involved in carrying out the scheme under the private finance initiative are thought to have added to the cost of the line. The consortium building the line, known as the City Greenwich Lewisham Rail Link, is headed by the John Mowlem construction group and Mitsui UK group.

Charles Batchelor and Mark Suzman

■ MACHINE TOOLS

Sector creeps up world table

Britain has made some progress in the pecking order of world machine tool companies ranked by sales, even though its best ranking company is still only 44th in the league table.

According to the Blue Bulletin, an annual US report on the machine tool industry, the 600 Group is Britain's biggest machine tool business, with sales in 1995 of $169.4m. The 600 Group was the biggest UK tool company in the previous rankings a year ago though it then came in 54th. Of the top 20 companies in the list, Japan accounts for nine, Germany five, the US four, and Italy and Switzerland one each. The 214 companies in the list had combined 1995 sales of $26.4bn.

Peter Marsh

Blue Bulletin, Association for Manufacturing Technology, 7901 Westpark Drive, McLean, Va 22102.

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[illegible]	[illegible]	[illegible]	Top UK	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2	Amada [illegible]	1104	49	Vernon [illegible]	184
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4	Fuji Machine [illegible]	893	149	Jones & [illegible]	29
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6	[illegible]	659	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8	Mori Seiki [illegible]	622	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10	Comau (Italy)	547	[illegible]	[illegible]	[illegible]

Source: Blue Bulletin

■ NUCLEAR WASTE

Company wins $27m US contract

British Nuclear Fuels, the nuclear waste management company, has been awarded a $27m contract by the US Department of Energy to design and license a facility to treat and immobilise 55m gallons of liquid radioactive waste. This is the first stage in a contract that could lead to BNFL's US subsidiary, BNFL Inc, taking part in a clean-up contract worth £4bn.

● Keller Group, the ground engineering company, has won £3.9m ($6.1m) of ground improvement work for the Aldi supermarket chain in France and Germany.

■ CORRECTION

Mr Richard Syvret

Some editions of yesterday's FT carried a picture of Mr Richard Syvret, director of the Jersey financial services department. The picture should have been of Senator Stuart Syvret. We apologise for the error.

Deprived region opens office at heart of EU

By Richard Wolffe in Birmingham

Forty West Midlands local authorities opened a joint office in Brussels yesterday in an attempt to protect their substantial European Union funding and raise the status of English regional government in the EU.

The authorities fear that expansion of the EU is likely to threaten their position as a deprived industrial region. The West Midlands is in line to receive £360m of EU regeneration funds over the next three years – the second largest grant of its kind in Europe.

West Midlands council leaders hope that a fully-staffed office in of Brussels will protect the region's EU funding and find new sources of grant aid within Europe.

New members from central and Eastern Europe are seen as posing a serious challenge to the spending power of local authorities. Wolverhampton council, for instance, estimates that the loss of EU funds would reduce its capital spending by up to 20 per cent.

Instead, the West Midlands office hopes to raise funds by linking with other European regions with similar industrial problems. Kidderminster, for example, hopes to win funds to cope with the decline of its carpet industry by combining with similar regions on the continent.

Councillor Roger Lawrence, chairman of the West Midlands Regional Forum of Local Authorities, which is funding the Brussels office, said: "Competition for European funds is increasing all the time and will be even tougher as the EU membership expands into Eastern Europe.

"The EU always looks more favourably on projects which involve partner authorities from different countries and these alliances can only be easily formed in Brussels."

Campaigner warns that auditing profession 'could be extinct within 20 years'

Deal urged to reform law on liability

By Jim Kelly, Accountancy Correspondent

Auditors "could take a bigger role in protecting companies from fraud and setting profit forecasts" in return for reform of the law which can leave their firms paying most of the damages if things go wrong.

Mr Gerry Acher, one of the leaders of the campaign by several professions to win reform, said that unless the balance of risk was changed, the auditing profession could face extinction within two decades.

"It is not completely outlandish to suggest that if things go on as they are, we will not have an auditing profession in 10 or 20 years' time," Mr Acher told the Financial Times.

Mr Acher's offer, that the auditing profession could be far more aggressive and helpful to companies if freed from the threat of joint and several liability, will be seen as putting pressure on the government to announce legal reforms.

He pointed out that the issue did not concern auditors alone. "You can see this from the fact that no less than 15 organisations responded to the Department of Trade and Industry in a joint letter urging a full investigation into joint and several liability. These organisations comprise a wide spectrum of professional and business interests – users as well as providers of services."

Mr Acher said existing proposals in Britain were welcome but did not go to the root of the problem. "Other common-law countries, such as the US, Australia and, very recently, Bermuda, have recognised that the present unfair system must be changed to allow proportionality. When our international competitors operate in a different system, it is time to consider whether we, rather than they, are out of step."

The British government's Department of Trade and Industry is considering a wide range of measures to limit partners' individual liability – and fundamental reform of the law which relates to a firm's liability.

The DTI was on the point of an announcement on individual liability before the summer recess but an internal dispute broke out with the office of Mr Michael Heseltine, the deputy prime minister.

Mr Acher's offer only stands if the government undertakes fundamental reform of firms' liability. "Other reforms are very partial solutions," he said.

Mr Acher, who is head of the audit faculty at the Institute of Chartered Accountants in England and Wales, said that the profession had partly retreated into a defensive position in the face of the legal risks faced when companies fail.

Because of the risks involved, Mr Acher, who is head of audit at KPMG, the accountancy firm, said that accountants played a backroom role in profit forecasts and projections.

"But freed from the prospect of unlimited liability if an investment goes wrong, it really ought to be possible to offer something more, for example, a view on the underlying assumptions," he said.

An announcement by the DTI on liability is expected early next month.

FINANCIAL TIMES
COMPANIES & MARKETS
Friday September 27 1996

IN BRIEF

Lira rises on Emu optimism

The lira yesterday strengthened to a two-year high against the D-Mark, writes Samer Iskandar, while Italian government bond prices rose sharply, outperforming German bonds for the sixth consecutive day. The rally in both the currency and bond markets has been driven by renewed optimism that Italy might become one of the founding members of European monetary union, which is due to begin in 1999. Political opposition to the plan could lead to a reversal of the recent gains. However, yesterday there were early signs that the Communist Refoundation, on whose support the coalition government is dependent, will back the plan.
Currencies, Page 27; Bonds, Page 26

Lonrho opts for trade sale of hotels
Lonrho has abandoned the flotation of its Princess Metropole hotel business, concluding that it could raise £100m more in a trade sale. The decision was taken by the board this week. Rival hotel chains are understood to have indicated that they would pay about £700m ($1.1bn) for the 15-hotel business. Page 24

Fyffes leaves US market
Fyffes, the fruit and vegetable distributor, yesterday effectively withdrew from the US banana market and announced a joint shipping venture with Dole, the world's largest banana group. The group has sold its 50 per cent share in Banana Trading, owner of banana-farming operations in Guatemala and Honduras, to Dole for $26.3m (£16.8m). Page 24

Frankfurt climbs to third peak
Self-doubt pulled Frankfurt back from its best levels but the Dax index, up almost 40 points over the previous two sessions, still closed 1.86 higher at an Ibis indicated 2,664.56. This represented an all-time best, but it was a touch-and-go performance in spite of another very solid showing for German bonds. Page 38

H&M reports 52% rise
Shares in Hennes & Mauritz, the Swedish fashion retailer, soared yesterday when the group posted a 52 per cent increase in profit in the nine months to end-August, ahead of most analysts' forecasts. Page 20

Asset sales behind rise at Paribas
Asset sales from its investment portfolio helped lift first-half net income at Paribas, the French financial group, to FFr4bn ($783m). That compared with full-year losses in 1995 of FFr4bn.
Page 20

Peregrine profits up 15%
First-half net profits at Peregrine Investments Holdings, the Hong Kong investment bank, rose 15 per cent to HK$399m (US$51.6m). The results were helped by strong equity, derivatives and fixed-income business, mainly in the first quarter. Page 23

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Degussa	553	+	8.2
Lohmeyer	555	+	5
SGL Carbon	181	+	2
Varta	280.5	+	2.5
VEW	515	+	40
Falls			
Gerresheimer	31.5	–	1.65
NEW YORK ($)			
Rises			
Abercrom Fitch	22½	+	6½
America Online	34¼	+	2½
Solid	36⅝	+	3⅛
Falls			
Burlington Ind	10⅛	–	2⅛
E G & G	17	–	3½
Silicon Grphs	21⅛	–	1⅛
LONDON (Pence)			
Rises			
Seafield	10½	+	1¼
Falls			
Cont (S.R)	35½	–	24½
Humpugh Tech	762½	–	115
Kwik Save	312½	–	29
OmniMedia	18½	–	15½
Tilbury Hldgs	267½	–	56
TORONTO (C$)			
Rises			
Alphanet	22.40	+	1.15
Hummingbird	30.00	+	1.10
Falls			
Band Ore	10.10	–	1.15
Deltrina	15.00	–	1.50
Malibu Trump	11.05	–	0.90
Orvana Mins	7.50	–	8.80
PARIS (FFr)			
Rises			
Alcatel	407	+	6
Danone	785	+	10
Imetal	730	+	19
Falls			
Bouygues	481	–	11
Ch. Dior	602	–	33
Seb	888	–	10
TOKYO (Yen)			
Rises			
Brother Ind	597	+	17
Janome Sewing	510	+	80
Omron Corp	2080	+	80
Yokogawa El	1150	+	80
Yomiuri Land	855	+	59
Falls			
Cosmo Oil	610	–	15
HONG KONG (HK$)			
Rises			
Founder (HK)	3.15	+	0.225
Guoco Group	37.10	+	1.40
Kerry PPT	18.45	+	0.75
New Asia A	32.20	+	1.70
Falls			
Iwai's Intl	0.98	–	0.15
Kwoon Chung	2.125	–	0.225
BANGKOK (Baht)			
Rises			
K.R. Precision	130.00	+	11.00
Stroppeck	37.00	+	3.00
Thai Finance-P	67.50	+	6.00
Thai Reinsure	78.00	+	5.00
Falls			
PCM Forecast	40.75	–	4.00
Thai Wire Prd	38.25	–	2.75

New York & Toronto prices at 12.30

Alcatel hints at Thomson unit deal

By David Owen in Paris

Mr Serge Tchuruk, chairman of Alcatel Alsthom, yesterday gave a strong hint that the French telecommunications and engineering group may cede majority control of Thomson Multimedia, Thomson's money draining consumer electronics arm, if its bid for the state-controlled electronics group is successful.

Asked twice whether he intended to keep a majority interest after teaming up with his proposed Asian partner, the Alcatel chairman avoided answering directly, talking in terms of "shared management" and saying it was not his aim to remain the "pivot" of the business.

But he said Alcatel would not "disengage" entirely. Lagardère, Alcatel's rival for Thomson, has said it will sell Multimedia to Daewoo of Korea if it wins.

Mr Tchuruk's comments came as the group reported a substantially reduced first-half net loss of FFr400m ($78.4m), compared with FFr1.2bn, and said it expected a return to break-even for the year.

Once the disposal of the group's 25 per cent holding in Cofira, the financial holding company of Société Française du Radiotéléphone, France's number two mobile phone network operator, was taken into account, Alcatel would be "comfortably profitable" to the tune of "a few billion francs", according to Mr Tchuruk.

The path to this disposal was apparently cleared yesterday by the announcement by Compagnie Générale des Eaux, which controls SFR, that it had chosen the partners which would participate in its restructured telecoms operations.

Neither Générale des Eaux nor Alcatel would say yesterday how much Alcatel was likely to receive for its Cofira stake.

Alcatel shares rose sharply in a virtually static Paris market, ending the day at FFr411, a gain of FFr10 or 2.5 per cent.

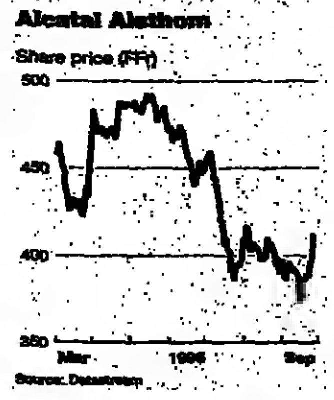
The company said its first-half improvement partly reflected the "still limited" effects of the recovery plan launched last year that resulted in the inclusion of FFr23.1bn in exceptional provisions and depreciation charges in its full-year 1995 results.

It said the effects of the plan would be more noticeable in the second half. Between FFr3bn and FFr4bn of reserves would be utilised in this period, against FFr1.9bn in the first half and FFr1.6bn in the first half of 1995.

On a less positive note, gearing edged up from 61 per cent to 62 per cent, reflecting a FFr3bn increase in net debt to FFr23bn. This was in spite of the completion of half of the group's planned FFr10bn asset disposal programme.

It said only FFr400m of these disposals had been included in its first-half figures, with a further FFr3.6bn completed since July 1 1996. It indicated end-1996 gearing was likely to be 30-40 per cent.

Operating income totalled FFr500m, down from FFr1.4bn in the first half of 1995, with the core telecoms division contributing an operating loss of FFr1.1bn, down from a loss of FFr500m. Turnover fell from FFr78.3bn to FFr74.3bn.
Lex, Page 18

Alcatel Alsthom


Source: Datastream

KNP BT heads out of core activity

By Gordon Cramb in Amsterdam

KNP BT of the Netherlands, one of Europe's largest paper producers, will today open the way for a departure from the industry. The group is to announce that it is ending new investment in its traditional core business and may sell at least part of the division.

It will direct future spending towards packaging materials and distribution services, the other two sectors in which it is active. The move follows a sharper than usual downturn in the cyclical market for paper, and marks a radical departure for the company established in 1875 as the Dutch national paper maker.

Mr Frank de Wit, KNP chairman, said: "We need further concentration in the industry, with fewer and more comparable players." The group "should participate in this concentration process, but that would not, for the time being anyway, result in a heavier capital commitment."

Industry analysts will be told today that, though in a poor market, the unit is not formally up for sale.

KNP Leykam, the subsidiary being sidelined, is Europe's biggest producer of coated wood-free paper products, with a regional market share of 15 per cent and sales last year which, at Fl 3.32bn ($1.9bn), approached a quarter of the group total.

An existing Fl 1.2bn investment programme due for completion next year will replace four ageing Leykam machines with one new line, but after that KNP plans to halt capital investment.

Together with operating efficiencies to be introduced on the packaging side, this will lead to the loss of "several hundred" jobs, although expansion in newer areas such as computer distribution will mean that total group employment would rise from the current 26,000.

Metsä-Serla, KNP's Finnish competitor and one of several possible merger candidates for the paper-making business, said this week 1996 earnings would be all but wiped out because of a steeper than expected fall in prices for fine papers. It followed similar profit warnings from other companies such as the Franco-British Arjo Wiggins Appleton.

Guinness admits mistakes as profits rise 5%

By Roderick Oram, Consumer Industries Editor

Guinness, the UK brewing group, admitted for the first time yesterday that it had eroded shareholder and brand value in recent years by making poor acquisitions and cutting advertising and prices of its alcoholic drinks.

Mr Tony Greener, chairman, said the group was learning from its mistakes and was now trying to maintain premium pricing backed by a sharp increase in spending on advertising.

Guinness recently rejected as financially unattractive the idea of bidding for its rival Grand Metropolitan or demerging its own spirits and brewing businesses. Instead, it would focus on organic growth, Mr Greener said.

He was speaking as the company announced a 5 per cent rise to £357m ($558m) in interim pre-tax profits.

The City was disappointed by the group's progress with some analysts shaving their forecasts to about £960m, which would be a rise of 2 per cent on last year. The shares closed down 6p at 448½p.

"We have to be looking at 1998 or 1999 before higher advertising produces better sales volume, prices and profits," one analyst said. "Shareholder patience is getting pretty thin," added another.

However, one large shareholder said he was prepared to see if the strategy paid off. "I'm not that short-term. They are not in a fast growing business and at least the company now accepts it has to invest in its brands."

Guinness's shares have fallen 29 per cent from their peak in May, 1992, as the group struggled to persuade consumers to buy more drinks at higher prices and to generate profits from its acquisitions.

It has underperformed its sector by 11 per cent and the FT-SE-A All-Share index by 51 per cent. Its market capitalisation has fallen 40 per cent to £8.8bn although the group has bought back some shares.

Mr Greener said: "There is no question that some of the acquisitions of the early 1990s have eroded shareholder value – and some of the earlier decisions on marketing investment did not enhance brand value."

Buying Asbach, the German brandy producer, and Pampero, the Venezuelan rum maker, were "sensible acquisitions strategically but we paid quite a lot too much for them", he added. Cruzcampo, the Spanish lager brewer, was still suffering from poor market conditions.

Analysts estimates Asbach cost Guinness £150m but produces just over £10m in annual operating profits and Pampero cost £45m but makes only a few million. The Cruzcampo investment of £600m generated £3m profit in the first half.

In the first half, the group's spirits arm reported operating profits down £2m to £256m with Asia-Pacific the only region reporting an upturn. Global volumes rose 1 per cent. Scotch whisky volume fell 4 per cent because of lower shipments to the US, the UK and parts of South America as wholesalers reduced their high stocks. Excluding pubs sales, retail voluma of Bell's, the UK's leading Scotch brand, fell 11 per cent in the first half as Guinness tried to make a price increase stick.

It said it would pursue the policy through the competitive Christmas season. Its UK spirits profits fell 20 per cent to £16m, reflecting the lost volume and wholesaler de-stocking. Global beer profits rose 5.3 per cent to £119m thanks to strong performances in Ireland, the UK and North America.

The group declared an interim dividend of 4.55p, up 6 per cent, on earnings per share of 12.3p, up 6 per cent.
Lex, Page 18


Tony Greener: no question that some acquisitions of the early 1990s eroded shareholder value

US bidders fails to make short list for STN sale

By Michael Lindemann in Bonn

Up to eight leading European companies have been short-listed as possible buyers of STN Atlas, the German defence electronics company. But US bidders, believed to have included Locheed, have failed to make the second round.

According to executives close to negotiations, the German group Daimler-Benz Aerospace (Dasa), BAe, the UK defence contractor, and the French group Thomson will now be asked to begin a due diligence examination of STN Atlas, one of Europe's leading manufacturers of radar, sonar and heavyweight torpedoes. STN was part of the Bremer Vulkan company which collapsed earlier this year.

Other German biddars include a consortium comprising defence contractors Rheinmetall, Diehl, and the Howaldtswerke shipyard; and MAN, the trucks and printing group which has emerged as a surprise contender. It remained unclear last night who the other German bidders are.

The bids are balieved to have valued STN at around DM600m ($396.5m), although the BAe bid is believed to have been much less than that. Final bids are expected at the beginning of November, but axecutives suggested these might well be scaled back after due diligence.

STN reported a net profit of DM32.5m last year, on sales of DM1.45bn. However, it is believed to have accumulated heavy debts in recent years.

Controversy has surrounded the sale, which two weeks ago attracted up to 30 potential buyers, because the German defence ministry has warned that the company should be sold to a German buyer to keep sensitive defence technology in German hands.

Defence industry executives, notably at BAe, hava argued that such threats would hamper a consolidation of the European defence industry, which is badly needed if it is to compete with larger and more efficient US companies.

They have warned that such threats might force Mr Jobst Wallensiek, the administrator of the Bremer Vulkan shipping group overseeing the sale, to sell to a German bidder without regard for price. BAe had planned a joint bid with Dasa, but submitted its own following the ministry comments.

Pressure on Strafor-Facom

By Andrew Jack in Paris

A US-based arbitrageur and his French investment partner have acquired 6.4 per cent of Strafor-Facom, the diversified office equipment and engineering group, in a campaign to increase shareholder value.

Mr Guy Wyser-Pratte aims to push management into splitting the group into two quoted companies, to reduca the heavy discount to net asset value at which it trades on the Paris bourse.

Ha wants Facom, the hand-tools maker bought in the early 1990s, to be quoted separately from the rest of the Alsace-based group, which controls office equipment, metals finishing and a range of other related businesses.

Since July, Mr Guy Wyser-Pratte and Paris-based Verneuil Finance have spent about $300m building up a stake in Strafor-Facom. He said he was likely to continue increasing his investment, while using "friendly persuasion" to push for talks with the group's directors.

Mr Wyser-Pratte, who was born in France, has made his name in a number of proxy battles in the US in the last few years, and became a minority investor in Northern Electric of the UK in 1995.

He has also been involved in campaigns in France, including a failed attempt to block Paribas' takeover bid for the Navigation Mixte conglomerate last year, and two attacks on CIP, an investment company controlled by Banque Nationale de Paris, which ultimately forced the bank to offer to buy out minorities.

"France is a giant bureaucracy run by technocrats," he said yesterday from his office in Naw York. "It's high time the entrepreneurial class was given its due. There is a lot of lip service paid to maximising shareholder value."

Mr Wyser-Pratte estimates Strafor-Facom's worth at about FFr650 a share, against a closing price yesterday of FFr409, up 5 per cent on the day.

Strafor-Facom reported net income of FFr143m ($27.9m) last year on turnover of FFr8.5bn.

Perfume blemishes LVMH's first half

By David Buchan in Paris

Shares in LVMH closed 3.9 per cent down in Paris yesterday after the French luxury goods group reported a sharp decline in perfume income that clouded an overall rise in first-half net profit.

Net profit excluding exceptional items rose 5.4 per cent, from FFr1.46bn a year earlier to FFr1.54bn ($301m), largely because of lower finance and debt charges. First-half sales were almost static at FFr13.36bn.

However, in perfume and beauty products – one of LVMH's largest divisions – operating profits plunged from FFr380m in the first half of last year to FFr70m. The decline was the result of the group's campaign against the growing parallel, or "grey", market in Christian Dior perfumes.

The group decided to cut off supplies to discounters which it complained were selling Dior products too cheaply and undercutting the group's own sales.

Nonetheless, the group was confident that by the end of the year it would exceed last year's net profit of FFr4.04bn. Analysts in Paris said the claim was plausible, partly because currency and industrial problems in the second half of last year would provide a favourable basis for comparison.

Part of yesterday's poor market reaction stemmed from the fact that in recent years LVMH has been one of the star performers on the Paris Bourse, where its market capitalisation is second only to that of the Elf-Aquitaine oil group.

In champagne and wines, net income rose from FFr145m to FFr167m on sales that increased from FFr1.9bn to FFr2.1bn. In cognac and spirits, net profits remained steady at FFr796m on turnover that fell slightly, from FFr2.5bn to FFr2.36bn.

Sales of luggage and leather goods rose appreciably, from FFr3.69bn to FFr4bn in the first half of this year, with net profit rising from FFr1.71bn to FFr1.74bn.

● Last week, France's other luxury goods conglomerate, Hermès, reported a 7.5 per cent increase in first-half net profit to FFr161.5m, on sales that rose by 5.7 per cent to FFr1.91bn. Hermès also reported a slide in its operating income, which was offset by decreased provisions and financial charges.

Zurich lifted by Kemper acquisition

By William Hall in Zurich

Zurich Insurance, Switzerland's second-biggest insurance company, is starting to reap the benefits of its $2bn acquisition of Kemper, the US financial services group.

Kemper's first contribution helped double the pre-tax profits of Zurich's life insurance business and raise Zurich's first-half net income by a third, to SFr578.4m ($467.2m).

The 1995 acquisition of Kemper, which was financed from internal resources, has not led to any dilution, and Zurich's earnings per share rose by about a third to SFr12.7.

Mr Rolf Hüppi, chairman and chief executive, said that as a result of the Kemper acquisition, Zurich was now one of the top 10 US insurance companies. It planned to increase significantly the Kemper companies' operating performance over the medium term.

Zurich's life business accounts for only 14 per cent of pre-tax profits, but its growth potential is reflected in the fact that it accounted for 27 per cent of gross premiums of SFr16.6bn. Life premiums rose by 15.2 per cent, primarily reflecting Kemper, or more than twice as fast as the 6.7 per cent growth in non-life premiums.

Pre-tax profits in Zurich's much bigger non-life business grew by 21.2 per cent to SFr810.3m. The relatively slow growth in premium income on this side of Zurich's business reflects its efforts to improve profitability by being more selective about underwriting risks. This has led to a fall in premium volumes in some countries such as Canada and the UK. The group achieved a lower loss ratio. However, modest premium growth caused the overall expense ratio to rise.

Zurich's investment portfolio rose 24.2 per cent to SFr106.9bn, while investment income rose by 21.1 per cent to SFr3.1bn.

Sale of assets behind sharp rise at Paribas

By Andrew Jack in Paris

Asset sales from its investment portfolio helped lift first-half net income at Paribas, the French financial group, to FFr4bn ($783m). That compared with full-year losses in 1995 of FFr4bn.

Mr André Lévy-Lang, chairman, stressed Paribas was "on the right track" to meet its objective of a 10 per cent return on equity by 1997-98, and said: "The group is financially solid, and we have an equity base shared by only a few European banks."

He also said that Paribas had taken a provision of FFr300m during the first half to cover the costs of its preparation for the move to the single currency over the next two years. The money represents additional spending on technology ahead of the euro.

The net income figure, which was up sharply from FFr609m in the first half last year, came on revenues ahead more modestly from FFr13.3bn to FFr14.7bn.

It included a strong growth in capital gains realised in the industrial affairs portfolio division, generating net income up from FFr913m to FFr2.6bn. The principal capital gains came from the sale of stakes in Audiofina, Axime, Poliet and UGC DA.

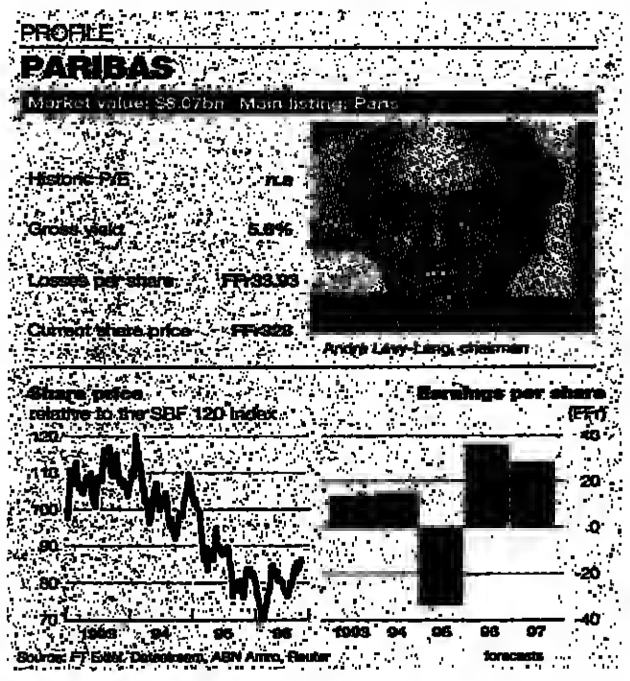
Banque Paribas, the group's merchant banking arm, reported net income of FFr1bn, against FFr57m, after achieving growth from its core divisions, limited overhead increases and no further rise in provisions.

Crédit du Nord, the retail bank division, returned to profits of FFr110m after a loss in the first half last year of FFr31m, which Mr Lévy-Lang said demonstrated that it was possible for the business to be profitable once focused on its core business.

Compagnie Bancaire, the specialist banking arm, reported net income halved from FFr300m to FFr145m, reflecting the exceptional contribution last year from the sale of the UCB Home-loans business.

The holding company reported net income of FFr100m, against a loss last time of FFr630m. The increase largely reflected capital gains on the sale of some of the assets of Navigation Mixte, the diversified holding company it took over earlier this year.

Paribas said it was now just FFr2.2bn short of the FFr8.7bn cash it had pledged to recover by next spring to fund the Navigation Mixte takeover. It had recovered FFr3bn from the group's treasury, and a further FFr3.5bn from asset sales.



H&M climbs 52% despite weak markets

By Hugh Carnegy in Stockholm

Shares in Hennes & Mauritz, the Swedish fashion retailer, soared yesterday when the group defied weak markets in Europe by posting a 52 per cent increase in profit in the nine months to end-August.

The jump in pre-tax profits, from SKr668m in the same period last year to SKr1.01bn ($153m), was well ahead of most analysts' forecasts. Earnings per share surged from SKr10.50 to SKr15.95.

The result sent investors rushing to buy the stock. H&M's B shares leapt initially from SKr677 to SKr790 before profit-taking cut the gains. The shares ended at SKr769, a 13 per cent gain on the day.

The result underlined H&M's recovery from a weak 1995, when its status as one of Sweden's top shares was dented. Analysts said its reputation as a growth stock was fully restored. The value of H&M shares have now more than doubled since the end of last year, when they stood at just SKr370.

H&M, which has 450 stores across Europe, cashed in during the period with its formula of selling attractive high street fashions at competitive prices. Its fashion choices have paid off.

Mr Stefan Persson, chief executive and controlling owner of H&M, said the profit gain was achieved mainly by successful fashion ranges and substantial price cuts.

"Of course, cutting prices cuts margins, but it also mean our customers buy more from us. And at the end of the season we don't have to discount heavily to get rid of unsold stocks," he said.

H&M sales rose 12 per cent during the period, from SKr10.5bn to SKr11.7bn – including a 23 per cent increase during the third quarter, when there was a pick-up in demand. But Mr Persson said markets had generally remained weak.

The Stockholm-based group opened 30 new stores in the first 9 months, and will open a further 30 before the end of the year, bringing the total above 450.

Credito Italiano hit by write-down

By Andrew Hill in Milan

First-half profit et Credito Italiano (Credit), the Italian bank, was hit by e L113bn ($74.6m) write-down on the value of its 9.35 per cent stake in Ferruzzi Finanziaria (Ferfin), the holding company now called Compart.

Credit announced a parent company profit of L70.5bn after tax and provisions, against L90.8bn in the first six months of 1995. But the company said it expected full-year results to be "appreciably higher" than in 1995, whan the bank recorded a profit of L192.1bn.

Credit's stake in Compart dates from 1994, when the bank converted loans into equity to save the group, and its sister company Montedison, in which Compart has 33 per cent, from collapse. The shares beve underperformed since last year's abortive attempt to merge Ferfin with Gemina, the Italian investment company.

Consolidated profit – including the bank's controlling stake in Rolo Banca 1473, the Bologna-based banking group – was L54.8bn after tax, against e L104.7bn profit in the first half of last year, before the formation of Rolo Banca.

● Assicurazioni Generali and Ina, two of Itely's largest insurers, yesterday reported increases in parent company profits for the first half of 1996.

Generali reported a first-half parent company profit of L516bn before tax, against e restated interim profit of L535.5bn for the first half of 1995. Group premiums et Italy's largest insurer rose by 9.5 per cent to L20,483bn in the first half, of which L14,910bn came from outside Italy. Parent company profit was affected by the impact of a stronger lira.

Ina, which has been gradually privetised since 1994, said parent company profit had risen 16.5 per cent in the first half to L421bn before tax, against L362bn in the six months to June 30, 1995. Before extraordinary items, pre-tax profit was slightly lower at L458bn, compared with L470bn.

Ina warned that it would be difficult to match the first-half performance, but expected full-year profit to be higher than in 1995.

Premium income – which in the case of tha parent company comes almost entirely from life assurance – rose 7.4 per cent to L1,352bn.

Lyonnaise des Eaux ahead to FFr635m

By Andrew Jack

Lyonnaise des Eaux, the French communications, construction and services group, yesterday reported net income up by a quarter to FFr635m ($124m) for the six months to June 30.

The figures, which came in spite of an 8 per cent fall in turnover to FFr44.4bn, included about FFr150m in profits from Northumbrian Weter, ths UK group acquired by Lyonnaise last year.

Net income from its environmental services division, including weter supplies, contributed FFr715m, up from FFr585m, with a further FFr37m from communications, against FFr48m.

The construction division cut its losses from FFr31m to FFr6m, while other businesses reported losses of FFr111m, up from FFr96m, largely accounted for by the costs of property activities.

Mr Jérôme Monod, chairman, said the group was experimentally launching telephone services through its cable network next year, and expressed confidence in its participation in the TPS digital television by satellite services, which he said required 700,000 subscribers to be profitable by 2000.

He welcomed the refocusing of Suez, which holds 18 per cent of Lyonnaise's shares, and said he believed there was scope for his group to co-operate with its Belgian utilities snbsidiary Tractebel. But he ruled out any suggestion of a merger with Suez.

EUROPEAN NEWS DIGEST

Fiat confirms New Holland float

Fiat is to float 30–40 per cent of New Holland. Its UK-based agricultural and construction equipment business, on the New York Stock Exchange in November. Analysts expect the issue to raise about $1.5bn for Italy's largest private industrial group. The planned offering, foreshadowed by Fiat chairman Mr Cesare Romiti in June, will be submitted to the US Securities and Exchange Commission within the next fortnight. It will be led by Milanese merchant bank Mediobanca and Goldman Sachs, the US investment house.

Confirmation of the intended offering came yesterday as New Holland, one of the "big four" of the world agricultural and construction equipment sector – along with John Deere, Case and Agco – announced a 10.2 per cent rise in interim operating profits from $283m to $312m, on sales 3.7 per cent higher at $2.9bn.

Proceeds from the float will be welcome to Fiat, which is investing heavily in a global expansion programme for its motor business, but which last week reported a decline in first-half pre-tax profits and warned that full-year profits would be lower than expected. *John Griffiths*

Further cuts seen at Eni

Eni, the partially-privatized Italian energy group, has hinted at further restructuring after the forthcoming flotation of a second tranche of shares. Mr Franco Bernabe, chief executive, said yesterday the group's corporate structure would continue to be simplified and a number of management layers would be removed in the next few years.

Eni, which has shed 50,000 jobs over the past three years, has about 80,000 employees. Mr Bernabe would not be drawn on how many more jobs might be lost. He attributed this year's reversal in the headcount at Eni to the acquisition of Tigaz in Hungary. But Mr Bernabe promised substantial innovation in the way Eni will be organised in future.

The second tranche of shares will mark a "turning point" for the company, in which the state has an 85 per cent stake. He said once the flotation was completed, Eni could then embark on a more "aggressive" programme across its main business areas, including greater internationalisation of its exploration and production business, which is overwhelmingly centred on Italy.

The Italian government is to announce the size of the second tranche on October 7 with the flotation due to be completed by November. *Robert Corzine, Milan*

Aker settles with insurer

Aker, the Norwegian construction and offshore group, said on Thursday it had settled a dispute with the insurers for the Sleipner A platform. Under the settlement, all claims made by the insurance group in connection with the loss of the Sleipner platform have been withdrawn in exchange for the payment of NKr340m ($52.8m). Aker said the payment did not represent an admission of any liability for the loss. *Reuter, Oslo*

Schering upbeat for year

Schering, the German pharmaceuticals group, said strong first-half growth could lead to a raised dividend of DM2 per share for the full-year. Mr Giuseppe Vita, chief executive, told German television the company was on course to maintain the 30 per cent rise in net profits achieved in the first half. Turnover was expected to exceed DM5bn ($3.3bn) for the first time after sales of DM4.6bn in 1995. The dividend in 1995 was DM1.55 per DM5 share. *Frederick Stüdemann, Berlin*

Pirelli improves in first term

Pirelli, the Italian manufacturer of tyres and cables, increased first-half consolidated groop profit to L206bn ($136.05m) after tax, against L115bn in the same period of 1995. The group ettributed its success to product innovation and research in advanced technologies, and to the continued rationalisation of the group's structure.

Sales fell slightly in the first half, from L5,564bn to L5,368bn, mainly as e result of the effect of converting from foreign income into a stronger lira. The real increase in turnover, in local currency, was 1.6 per cent. Pirelli said it had detected signs of a slowdown in European markets, but said it was still positive about the full year and expected to improve on last year's group profit of L304bn after tax. Parent company profit at Pirelli rose to L210bn in the first half, against L52bn in the equivalent period and L141bn in the whole of 1995 – a result which allowed the company to pay its first dividend for four years. *Andrew Hill, Milon*

Seita ahead 24% at midway

Seita, the French tobacco group privatised last year, reported e 24 per cent jump in first-half net profit to FFr389.6m ($76.2m), due to an 18 per cent rise in exports and higher domestic margins on falling sales volume. Consolidated sales increased to a nominal FFr8.49bn in the first half, up 4.8 per cent on the same period of last year. But much of this is tax. Sales of Seita's own products and its distribution of other companies' cigarettes rose 5.1 per cent to FFr3.4bn. The first-half results included an exceptional gain of FFr39m from the sale of shares to employees following privatisation in early 1995. Earlier this week, Seita made a bid for the controlling share in Tabaqueira, Portugal's national tobacco company. *David Buchan, Paris*

Air Liberté in administration

Air Liberté, the small French airline, has had its business placed under court administration for six months. Mr Lotfi Belhassine, chairman, said as be left the court that the airline would cease flights on a number of routes. Some employees on fixed-term contracts will not have their contracts renewed. The company's difficulties were due to unfair competition and poor treatment at the airports, he said, referring to a climate of extraordinary competition from Air France. *AFX News, Paris*

Copenhagen exchanges merge

The Copenhagen Stock Exchange, which became a private limited company earlier this year, has taken over the Copenhagen Futop (Guarantee Fund for Danish Options and Futures) derivatives exchange, the two institutions announced yesterday. *Hilary Barnes, Copenhagen*

State sells Crédit Local stake

The French government said yesterday it had sold its 7.5 per cent stake in Crédit Local de France, the banking group specialising in public sector lending which was privatised in 1993 for FFr1.2bn ($235m). The move, in line with its policy of selling off minority participations, leaves the state-run Caisse des Dépôts et Consignations with 12 per cent of the shares. *Andrew Jack, Paris*

Cadence in research alliance

Cadence Design Systems of the US has formed a ground-breaking alliance with SGS-Thomson Microelectronics, the Franco-Italian semiconductor group, and Magneti Marelli, Fiat's components division, aimed at co-ordinating their electronic research facilities. Initially the project will focus on the development of electronic engine management systems designed to maximise fuel efficiency and cut pollution. Eventually, research will extend to other sectors, such as telecommunications and consumer electronics. *Paul Taylor*

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COMPANIES AND FINANCE: EUROPE

KNP moves to repackage itself

Dutch group is preparing to end 120 years of paper making

Cardboard boxes were stacked high in the corridors this week at the headquarters of KNP BT, the Dutch packaging, paper and distribution group. They were there not to display its wares, but because the company relocates today from a large edifice on the edge of Amsterdam to more compact accommodation in the city centre.

KNP is, in more than one sense, moving on.

Left behind will be 120 years of history as the "Royal Dutch paper factory", its original title, with an announcement today that it will invest in future in its packaging and service sector businesses rather than in paper making, for which it is seeking a partner or even an outright purchaser.

The uprooting also reflects a management shake-out which has brought head office numbers to about 50 from 200 or more a few years ago. According to Mr Frank de Wit, chairman, a group-wide performance improvement programme will – in spite of the decreased numbers – demand that reporting systems are "more focused on key strategic and operational performance indicators and on early warning indicators."

This may help the company identify at an earlier point factors which Mr de Wit admits it missed in the past year. Chief among them was the extent to which customers had been buying its paper products not for early use but for stocks.

"As an industry we underestimated the extent to which, in the first half of 1995, the boom was caused by stockbuilding," he says.

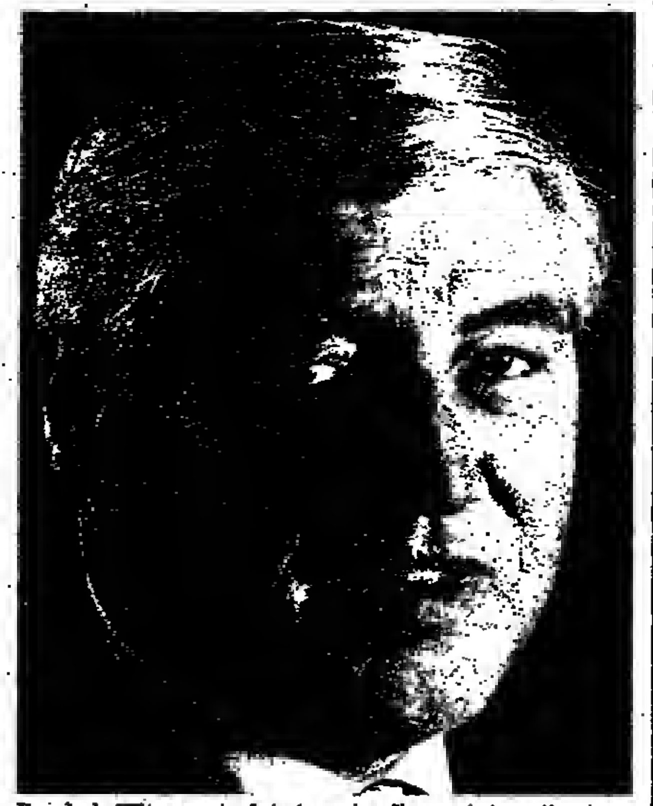
"Then of course it suddenly stopped – it stopped at the moment the last pulp price increase did not materialise and people suddenly thought maybe prices of paper will drop... We all knew it very well, after it happened."

When demand evaporated, KNP BT was left with overall net profits for the six months to June down 63.7 per cent to Fl 101m ($59.6m). Prices of the wood-free grades in which the KNP Leykam paper side specialises were approaching historic lows. The unit slid into an operating loss of Fl 24m. This compares with profits of Fl 183m a year earlier, some 38 per cent of the group total.

At the time of the results announcement at the end of July, KNP was expecting an imminent upturn in paper prices and forecast that "results in the second half of this year will be somewhat higher than those of the first six months".

This week, however, Mr De Wit said that the year to date had been "a major disappointment" and that wider financial objectives – such as improving the return on capital to 15 per cent from the current 13.5 per cent, and reducing gearing to 55 per cent from a prevailing 66 per cent – would not be met by December. It was too early to say whether they were attainable for 1997, he added.

Much of the earnings growth is now expected to come from operations such as the 70 per cent owned BT Office Products which, with a New York listing and a clutch of US acquisitions under its belt, is turning its attention to Europe.



Frank de Wit: year to date 'a major disappointment'

Through a joint venture, KNP is now the biggest distributor of computers for business use in France, though the operation has yet to enter profit. The group this week launched a further venture to supply PCs to multinationals operating in Russia.

The packaging side is also increasing its presence in eastern Europe as large customers for its products – such as detergent makers – start production there.

But with only 50 people to move to the head office today on Amsterdam's Museumplein, its stock of cardboard boxes will not be too depleted. Finding a new home for the paper division may take more time.

Gordon Cramb

Saurer responds to treatment

'Company doctor' Ernst Thomke has turned Swiss group round

When Mr Ernst Thomke, the Swiss "company doctor", took charge of Saurer just over a year ago, he inherited a famous company which had lost more than SFr100m ($81.1m) in two years. It was also about to relinquish its title as the world's largest maker of sophisticated textile spinning machines.

This week, Saurer reported an operating profit of SFr31m in the first eight months of 1996, against a loss of SFr23m. Mr Thomke announced he was sufficiently pleased with his patient's progress that he was handing day-to-day operating responsibility to Mr Heinrich Fischer, a long-time associate and former executive with Oerlikon-Bührle.

Mr Thomke, 57, who revamped the Swiss watch industry and restructured the Motor Columbus electric utility, wants to spend more time on his biggest challenge – knocking the loss-making Bally shoe business into shape so that it can be floated in a couple of years. By then, he reckons it should be worth SFr1bn – SFr2bn and be attracting the same sort of international interest as this week's flotation of Tag Heuer, the luxury Swiss watch maker.

Oerlikon-Bührle, the conglomerate which owns Bally, is only capitalised at SFr1.4bn, which suggests the market may have reservations about Mr Thomke's bold plans. Nevertheless, Mr Thomke has a strong stock market following, because of his record in rescuing some of Switzerland's most problematic companies.

At Saurer, he appears to have done in one year what bigger Swiss competitors, such as Sulzer, have failed to do in five – namely, revive the fortunes of one of the leading textile machinery groups. The turnround is all the more impressive since it has taken place against a background of a relatively weak world market.

Saurer had been dominated by engineers who liked nothing better than designing new prototypes. When Mr Thomke arrived, he found that one-third of the parts of Saurer's machines had been modified. The spare-part business, which was being hit by cheap overseas competition, was subsidising machinery manufacturing. Margins had collapsed in the US, Saurer's biggest market, after a price war with Rieter, a bigger and better-financed Swiss competitor.

Mr Thomke was quick to introduce a clear product and pricing strategy. Instead of producing dozens of new machines, Saurer's engineers now concentrate on adding value to existing models. The spinning machine business, accounting for two-thirds of group sales, has been split into separate profit centres and management attention is being focused on problem areas such as ring spinning and winding machines.

Break-even levels have been cut by nearly half in open-ended rotor spinning machines, the biggest product line. The spare parts business is being expanded aggressively and is expected to become an important source of profits. The wages of the group's Swiss workforce have been cut and more flexible working systems have been introduced.

Switzerland's machine-tool industry was once a world leader, but many companies disappeared because they were unable to compete internationally from a high cost base. Mr Thomke has proved that Swiss textile machinery manufacturers need not follow the machine-tool industry into oblivion.

William Hall

Withdrawal from German pay-TV costs CLT $116m

By Raymond Snoddy

Compagnie Luxembourgeoise de Télédiffusion admitted yesterday that the decision to scrap its planned German pay-television channel, Club RTL, would result in write-offs of LFr3.626bn ($116.6m).

CLT said yesterday the write-off figure included all costs associated with the 18-month project to the end of June, as well as closure provisions.

CLT, which is merging with Ufa, the television division of Bertelsmann, the German media group, announced earlier this month that it was scrapping its plans for a digital pay-TV channel in Germany in order to concentrate on its free-to-air television operations.

The decision was influenced by higher than expected programming costs, by the collapse of MMBG, a digital pay-TV consortium of broadcasters hoping to share technology, and by the merger of Canal Plus of France with NetHold, a pan-European pay-TV company.

On Wednesday, Bertelsmann said its television strategy would centre on free television, although it remained committed to Premiere, the German pay-TV channel which uses existing analogue technology and has about 1.3m subscribers.

Excluding exceptional items and losses on new projects, CLT's net profit rose 10.9 per cent to LFr2.051bn in the first half of the year.

"This increase comes principally from RTL Television in Germany, which has achieved a 6 per cent rise in sales and an increase in profit from last year," CLT said. Revenues in the first half totalled LFr 45.844bn compared with LFr45.393bn in the same period of last year.

The broadcasting group said exceptional gains of LFr4.7bn meant that the exceptional losses were absorbed.

Bertelsmann and CLT are waiting for approval of the merger from the European Commission. But earlier this week Mr Karel Van Miert, the EU competition commissioner, said the decision to scrap their German digital pay-TV plans would make the Commission's investigation easier.

CLT said it would try to use all the technical equipment purchased for Club RTL – which was due to be launched this autumn – throughout the rest of the organisation. The 120 staff, including 85 in Luxembourg, are likely to be relocated within CLT.

Digital television has had a modest start in Germany since its launch in July. DF-1, a joint venture between Kirch and British Sky Broadcasting, has signed up about 5,000 subscribers. Premiere says it gained 50,000 new customers in August.

COMPANIES AND FINANCE: THE AMERICAS

AIM in merger talks with UK's Invesco

By John Authers in New York

Invesco, the UK fund management group, and AIM Management, a privately held Texas-based mutual fund manager, said yesterday they were in merger talks that could lead to one of the biggest consolidations yet in the US mutual fund industry.

AIM has $54bn in assets under management, making it the 13th largest in the US. Analysts rate it as the fastest growing, its assets having doubled since 1994.

Neither company was prepared to discuss the price, although it appears likely that Invesco would pay comfortably below the $1.8bn which has been mentioned.

The enlarged company could become a significant competitor in the market for 401(k) corporate pension plans, the fastest growing segment of the mutual fund industry. These allow companies to out-source investment management to mutual fund companies. However, companies are nervous about committing employees' savings to fund managers that are not well known.

AIM is comparatively weak in this market, though Invesco has a "highly developed" management system for 401(k)s. The deal would also give AIM access to markets outside the US, and to Invesco's US distribution network.

Invesco would gain a significant toe-hold in the competitive US retail market for mutual funds. AIM is primarily a retail operation, distributing its funds through commission-charging brokers and banks.

It has 33 funds, with a specialisation in aggressively managed US equity funds, popular with brokers.

Several merchant banks have been monitoring AIM, but AIM said it was not in talks with any other potential partner, and denied the deal was a buy-out, preferring to call it a merger.

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Du Pont forecasts lift from oil arm

By Jenny Luesby

Du Pont, the world's largest chemicals company, yesterday said it expected third-quarter earnings to exceed analyst's forecasts by at least 10 per cent, owing to strong results from its oil division, Conoco.

Mr John Krol, chief executive, also said that Conoco's results should outstrip last year's third quarter by more than 40 per cent, owing to higher worldwide crude-oil prices.

Analysts upgraded net income forecasts to about $1.45 a share, excluding exceptional items.

The group said it expected an after-tax charge of about $50m in the quarter for crop-damage claims and legal expenses related to the recall of its Benlate fungicide.

In the third quarter last year, Du Pont reported net income of $769m, or $1.38 a share.

This was after insurance credits of 12 cents a share, related to environmental remediation.

Growth in chemicals would be lower, the group said, held back by weak pricing and demand in the markets for titanium dioxide and nylon, both significant businesses for Du Pont.

However, profits in this division are likely to be helped by agrochemical sales during the summer. Agrochemicals were weak in the second quarter because of bad weather, but held up better than normal during July and August.

In the oil division, improved earnings lifted the group profits 5 per cent in spite of the more moderate performance of the chemicals businesses.

At a briefing of analysts two weeks ago, the group had not foreseen a 40 per cent increase for its oil arm. The announcement of an improved outlook is based on operating figures for August, and on crude oil prices and volume forecasts in September.

AMERICAS NEWS DIGEST

Conseco to buy cancer insurer

Conseco, the acquisitive US life insurer, yesterday announced it was buying Transport, a cancer insurance company, for approximately $228m. It will also retire debt and preferred stock of $83m. Mr Stephen Hilbert, Conseco's chief executive, predicted that the acquisition would add about 7 cents to Conseco's earnings per share next year.

The merger would consolidate Conseco's position as the largest provider of supplementary health insurance in the US, which pays for treatment for the elderly over and above their entitlements from the federally funded Medicare scheme.

It is only a month since Conseco announced it was buying four long-term care, health and life insurers for a combined total, including acquired debt, of $2.04bn. Mr Hilbert said this strategy was led by demographics. The "baby boom" generation born in the decade after the war is now beginning to approach retirement.

Standard & Poor's, the rating agency, said it was maintaining its rating on Conseco, saying the company's acquisitions enhanced its distribution capabilities and made it less dependent on traditional fixed annuities. It said Conseco's operating strategy was becoming "more like that of a traditional insurance holding company".

Transport is allowed to look at other offers under the deal, but will pay a break-up fee if it is acquired by another company. *John Authers, New York*

Airbus purchase faces delay

The acquisition by Air Jamaica of four Airbus A-320s may be affected by the failure of the island's civil aviation department to meet safety standards laid down by the International Civil Aviation Organisation.

The planned purchase follows the leasing of six A-320s in the past year. The US Federal Aviation Administration decided a year ago that Jamaica's civil aviation agency did not meet the required safety standards, forcing Air Jamaica to keep three of its new aircraft grounded for several months. "This has nothing to do with Air Jamaica, as we have met all the FAA's safety standards," said Mr Gordon Stewart, Air Jamaica's chairman. "The FAA's ruling affects airlines based in Jamaica." The grounding of the aircraft coast the airline $70m dollars. "It has been a horrendous year," said Mr Stewart. "We had aircraft sitting on the ground. Flights were sold bnt we could not use the aircraft."

The Jamaican government, which has a 25 per cent stake in the company, has accepted responsibility for the failure to meet the regulations, and will compensate the airline with between $20m and $25m. A team from the FAA will visit Jamaica next month to determine whether safety levels have been improved. "The delivery schedule for the A-320s will depend on whether this problem of the civil aviation department can be sorted out," said Mr Albert Chappell, Air Jamaica's president.

The airline is considering the purchase of A-340s for its long-haul routes to Europe. "The business relations we have had with Airbus make the A-340 a natural extension of the fleet," said Mr Chappell. *Canute James, Kingston*

Corel posts third-quarter loss

Corel, the Canadian software products group, posted a loss of US$3.2m for the third quarter ended August 31, after a US$10.4m gain on an asset sale. This compared with net profit of US$14.2m a year ago. Corel said the loss was due to delays in software delivery.

Robert Gibbens, Montreal

Silicon Graphics warning hits stock

By Louise Kehoe in San Francisco

Shares of Silicon Graphics, the leading manufacturer of graphics workstations used in design and media applications, fell 9 per cent, to $21¼, in early trading yesterday, after it issued a warning late on Wednesday that third-quarter earnings would be "materially below" market expectations.

The company added that a semiconductor manufacturing problem at NEC of Japan had resulted in faulty microprocessor chips being installed in some high-end and mid-range Silicon Graphics computers sold between March and July.

Revenues for the quarter ending September 30 are now expected to be only slightly higher than the $758m in combined revenues reported by Silicon Graphics and Cray Research – which it acquired in July – for the same period a year ago.

Mr Edward McCracken, Silicon Graphics chairman and chief executivs, blamed anticipation of new products, due in October, for the slowdown in sales, while the problem with faulty microprocessor chips had cut shipments of certain products.

NEC has corrected the problem and Silicon Graphics was now receiving a "significant flow" of microprocessors, Mr Steve Goggiano, senior vice-president of manufacturing, said.

Derivatives watchdog favours short leash

Brooksley Born, the new chairperson of the Commodity Futures Trading Commission, the chief US derivatives regulator, has a hard act to follow.

Her predecessor, Ms Mary Schapiro, had a reputation as a tough securities overseer that put her in line for her present job as head of the new regulatory arm of the National Association of Securities Dealers.

Under Ms Schapiro, the CFTC received accolades for leading a global response to ths Barings crisis, quickly calming fears that Barings' losses might trigger a systemic shock to global finance. Ms Born expects the CFTC to continue that leadership, and to press for further international agreemsnts on information sharing between governments to protect markets from manipulation.

In the US, Ms Born faces the biggest legislative overhaul of futures legislation in five years. She will have to balance the need to relieve the regulatory burdens on US futures exchanges with Congressional orders to tighten fraud detection measures in US markets.

Brooksley Born: CFTC rules "should be narrowly defined"

Ms Born, 56, may be more reserved than Ms Schapiro, but she is well-versed in the derivatives industry, and in the complexities of international futures oversight. She is a veteran Washington lawyer who has spent most of her career representing companies, financial institutions and exchanges on derivatives-related issues.

In her 30 years at lawyers Arnold and Porter, she represented London's largest futures exchanges, including Liffe, before the CFTC.

She arrived in post a month ago, amid the turmoil in the copper market caused by the Sumitomo affair, and has since worked with her counterparts at the US Treasury, the Securities and Exchange Commission and the Federal Reserve to monitor the effects of the copper market jolt on the US financial system.

She is also lobbying for bettsr regulatory understanding of the international aspects of commodities trading through the International Organisation of Securities Commissions.

"These markets have been around a long time, but technology has improved communications globally and increased the ability of market participants to move quickly from jurisdiction to jurisdiction, and to trade simultaneously around the globe. This creates greater, global, opportunities for market manipulation," she says.

Ms Born's appointment has been welcomed by large US institutions which last year criticised the CFTC for extending its reach through enforcement actions.

She has said CFTC regulations "should be narrowly defined, clearly stated, and vigorously enforced". At a Congressional hearing last week, she deflected suggestions that the CFTC should regulate foreign markets with US delivery points, saying the agency's current mandate was adequate.

Laurie Morse

Jardine parent cautious after first-half decline

By Louise Lucas in Hong Kong

The Jardine group yesterday wound up a disappointing set of results when parent Jardine Matheson, the Hong Kong cooglomerate controlled by the Keswick family, posted a 17.5 per cent drop in interim net profits, from US$257.3m to $212.5m. It also warned that full-year profits would fail to match last year's $420m.

Profits at the interim stage last year were flattered by the $102.6m sale of an instalment finance business. Stripping out noo-recurring items, the company said profits inched ahead 1 per cent.

Jardine Stretegic Holdings, the company through which Jardine Mathesoo cootrols its corporate empire, saw net profits rise 29 per cent, from $165m to $213.2m, helped by the exceptional gain netted by stablemate Hongkong Land when it sold its stake in Trafalgar House, the UK conglomerate. The company also said it plans to buy back up to 50m ordinary shares.

The first warning of poor performances within the group came when Dairy Farm, the retail arm, earlier this month reported a 39 per cent fall in interim trading profits, to $53m, which it blamed on a mix of repositioning and start-up costs and weak performances in the UK and Taiwan.

Jardine Fleming, the merchant banking venture with Flemings of the UK, recorded a net trading profit of $82m in the first half, an increase of 28 per cent.

However, the cost of fines resulting from the actions of rogue fund manager Mr Colin Armstrong at Jardine Fleming Investment Management are likely to hurt the full-year result.

Mr Henry Keswick, Jardine Matheson chairman, said tha overall results were held beck by difficult market conditions and the repositionings at Dairy Farm. "The trading profit for the full year is not expected to reach last year's level," he warned.

The company also said that in June it tightened its grip on Jardine Strategic, the linchpin in the cross-shareholding arrangement designed to ward off hostile buyers, at e cost of $105m. It now holds 59 per cent of Jardine Strategic.

Jardine Matheson's earnings per share, excluding the non-recurring items, rose by just 0.7 per cent, from 29.43 US cents to 29.64 cents. The dividend is to be maintained at 7.80 cents.

At Jardine Stratagic, which Mr Keswick also expects to see a drop in profits over the full year, earnings per share at the halfway stage fell 10.9 per cent, from 18.13 cents to 16.15 cents on a fully-diluted basis, after stripping out exceptional items. Again, the dividand is unchanged, at 4.60 cents.

Toshiba sets date for DVD launch

By Michiyo Nakamoto in Tokyo

Toshiba, the Japanese consumer electronics company which has led the industry in developing next-generatioo digital video players, yesterday unveiled a range of digital video disc systems which it plans to launch in Japan on November 1.

Toshiba said its DVD player and DVD-Rom drive for use in PCs would carry tha equivalent of 3,200 floppy discs, seven CD-Roms or a full-length feature movie on a single disc.

The announcement highlights the determination of Japanese electronics makers to launch DVD products in spite of differences with software content providers, such as Hollywood film studios and record companies, over protection of copyright.

Toshiba's unveiling follows announcements of DVD prodoct launches by other consumer electronics makers, such as Matsushita and Pioneer. The companies will incorporeta copy guard semiconductors into their machines to appease software producers, concerned that DVD will allow almost perfect copies of movies and recorded music. With the copy guard chips, DVD software will not be able to be copied.

The consumer electronics makers have also agreed to respect Hollywood studios' system for distributing movies by altering DVD players and discs from regioo to region. A DVD made for the US market, for example, will not be playable on e DVD set bought in Jepan. These restrictions are likely to make DVD less attractive to consumers.

Nevertheless, Toshiba believes that because of its enormous storage capacity, DVD has great potential. It forecasts that DVD equipment will grow into a market of 119m units by 2000, supported by demand from the PC and home audio and video markets.

Peregrine Investments held back by staff costs

By Peter Montagnon, Asia Editor, in London

First-half net profits at Peregrine Investments Holdings, the Hong Kong investmeot bank, rose 16 per cent to HK$399m (US$51.6m). The results were bolstered by stroog equity, derivatives and fixed-income business, mainly in the first quarter.

However, the increase was well the below the 147 per cent surge in turnover, to HK$77.7bn, even after stripping out the effects of the HK$77.4m exceptional gain in 1995 from the sale of Phileo Securities of Malaysia.

Mr Philip Tose, chairman, said a sharp rise in business volume had led to higher costs, as the bank hired more staff in a market made expensive by the expansion of other houses soch as Deutsche Morgan Greofell.

The hiring of additional staff, some of them directly from Wall Street, to improve management systems and controls was "expensive, but absolutely vital". Staff costs as a proportion of overall costs were steady at around 55 per cent, he said.

While Peregrine's result suggests some pressure on commissions and other income, Mr Philip Niem, analyst at James Capel, said the higher costs were not particularly disturbing, as a relatively small proportion of them were fixed.

Mr Tose said trading conditions had become subdued during the third quarter, with weak stock markets, particularly in Thailand and South Korea. But there were hopes of an improvement in the fourth quarter, particularly in Hong Kong, where financial markets should benefit from easier credit conditions in China.

For the first time, Peregrine separated income from fund management, where it incurred an operating loss of HK$9m. The bank has only around US$250m under management, but expects this to rise to $3bn–$5bo within the next five years.

In spite of market suggestions to the contrary, Peregrine is not looking for an alliance to build up its funds business, as it wants to achieve critical mass first. Early next year, it plans to launch a US$250m–$400m fund to make private equity investments in industrial and infrastructure projects throughout Asia.

Fully-diluted earnings per share rose 7 per cent to 60.6 HK cents. The interim dividend is unchanged at 25 cents.

Battle lines drawn at Lippo

Plans to restructure the group have met strong opposition

Alarm bells started ringing amoog minority shareholders of Indonesia's Lippo Group's when the founding shareholders announced last month that they were rearranging the shareholdings of three of their listed companies.

Concern was sparked by the fact that the founding shareholders – the Riady family – planned to sell their etake in the flagship company, Lippo Bank, while principal shareholders would significantly reduce their holdings in the insurance company, Lippo Life.

The Riadys have made efforts to show consideration for minority shareholders, taking the unprecedeoted step of offering them "sweeteners".

A test of confidence will take place today, wheo shareholders meet to vote on the restructuring.

The sweeteners "showed tha Riadys' good intentions and did restore some faith [in the group], but why they want to restructure is still oot clear," says a Hong Kong-based fund manager.

The eweeteners did oot change the plan to create a "financial eupermarket". Lippo Securities is designed to become e financial holding company by lifting its stake in Lippo Life from 4.9 per cent to 32 per cent, while Lippo Life will take a 40 per ceot stake in Lippo Bank.

Some investors have been woo over, however, by pledge from the Riady family to waive its 10 per cent management fee on Bank Lippo'e pre-tax earnings from September this year, regardless of whether the restructuring is approved. Lippo Group valued that concession alone at at least Rp680bn ($293m).

However, say analysts, principal shareholders are set to receive about Rp900bn from the restructuring. This led to suspicions that the Riadys were extracting cash to invest outside Indonesia.

The sweeteners elso incloded e pledge by the family to "plough back" proceeds from the restructuring in a proposed Rp500bn to Rp1,000bo rights issue at Lippo Securities and a Rp350bn to Rp500bo rights issue at Lippo Life within the next 12 to 15 months.

James Riady: sees 'tremendous synergies' from shake-up

The Riedy family aimed to increase its stake in Lippo Securities to 50 per cent from its current level of 19 per cent, said Mr James Riady, Lippo Group's deputy chairman, though be did not say how much of the proceeds his family would use in subscribing to the proposed rights issues.

In any case, analysts note that a rights issue at Lipp Securities is not possible fo about another year. Th company would require spe cial permission to have rights issue within 1 months of its last one, i July this year. There was n mention at the time that th cash raised would be used t finance the restructuring.

Mr Riady believes that th proposed move will creat "tremeodous synergies' between the three compa nies. Lippo Life's growth wil be enhanced by tapping int Bank Lippo's distributio network, he says.

Others are more sceptical After the restructuring, non of the three companies wil see their figures consoli dated in those of any other Lippo Securities and Lipp Life will be left with eccounts domineted by "other income" cootributions, making them less of a pure securities and insurance operation, analysts say.

"The terms of the deal have been improved, but not sufficiently to make it earnings-enhancing," says Mr James Spence, of W.I. Carr in Jakarta.

Nevertheless, Mr Riedy says Lippo Group is "firm in maintaining e position that might oot appear acceptable, if we believe that it will be of the utmost benefit to the company." Today's shareholders' meeting will determine whether this position is really possible.

Manuela Saragosa

Indian Petrochemicals warns of fall

By Tony Tassell in Bombay

Indian Petrochemicals Corp, India's largest integrated petrochemicals prodncer, has warned of a sharp fall in oet profits for the six months to September 30.

Mr K.G. Ramanathan, IPCL chairman and managing director, told the company's annual general meeting that first-half oet profits were likely to fall to around Rs2.2bn ($61.7m) from Rs3.05bn in the same period last year. He blamed "difficult market conditions end a squeeze on margins".

First-half sales were expected to drop to Rs13.5bn from Rs14.7bn last year, in spite of a 4 per cent increase in production volumes.

IPCL shares fell Rs7, or 6 per cent, to Rs115 on the warning, which further highlighted the downturn in the Indian petrochemicals industry over the past year.

An analyst with a UK-based brokerage said IPCL's forecast first-half results would be disappointing and far below market expectations.

He said the company's performance had been hit by lower petrochemical prices over the last year, delays in commissioning new projects, higher interest costs following inventory build-ups and e higher than expected tax bill.

The analyst said the results were likely to lead to e downgrade in some forecasts for IPCL's full-year net profit, to around Rs5bo compared with Rs6.05bn last year. They may also further delay IPCL's long-mooted $175m international convertible bood issue.

However, Mr Ramanathan said the second-half performance should benefit from a stabilisation of international prices for its products, and additional volumes. He said IPCL has just commissioned a 30,000 tonne-a-year bota diene rubber plant; a 75,000 tonne-a-year polypropylene plant will start production in a few days.

COMPANIES AND FINANCE: UK

Company concludes it can realise £100m more in a trade sale

Lonrho jettisons hotels float

By Ross Tieman

Lonrho has abandoned the flotation of its Princess Metropole hotel business, concluding that it could raise £100m ($156m) more in a trade sale.

The decision was taken by the board this week. Rival hotel chains are understood to have indicated that they would pay about £700m for the 15-hotel business.

The company's advisers on the float, SBC Warburg and HSBC James Capel, hoped to raise £700m, but pre-marketing appears to have indicated that receipts might not exceed £600m.

Lonrho suspended the flotation on September 5, after receiving eight approaches from rivals keen to buy all or part of the business.

About a dozen serious expressions of interest have been received in the 10 Princess resort hotels, the five Metropole conference hotels, or both.

The company has begun discussions aimed at securing the highest price.

Metropole, Britain's leading conference hotel group, is expected to fetch £300m-£350m. Princess, which operates resort hotels in the US, the Caribbean and Mexico, is expected to fetch a little more. Princess botels have lower occupancy levels, but leading US botel groups apparently believe there is ample opportunity to increase profit margins.

Lonrho aims to announce a sale by mid-October. The objective is to clear as much as posaible of Lonrho's £800m of debt, preparatory to a flotation of the conglomerate'a African trading interests.

Mr Dieter Bock, Lonrho chief executive, plans to head the African trading business, leaving the rump Lonrho mining business to go its own way under the wing of Anglo American, the South African mining group.

Redland to cut 700 jobs after fall

By Andrew Taylor, Construction Correspondent

Fergus Wilde

Robert Napier: can see signs of improvement in Germany and the UK but not in France

Redland, one the largest building material groups in Europe, expects to axe some 700 jobs by the end of this year, the hulk of them in France and Germany.

The company yesterday announced a 42 per cent fall in pre-tax profits to £95.5m ($149m) for the first aix months of this year.

Profits would have fallen further but for a £14m contribution from the sale of its Belgian brick interests.

Redland blamed the poor performance on 'appalling' winter weather in Europe as well as difficult trading conditions in its main markets in Germany, the UK and France.

Mr Robert Napier, chief executive, said the damage had all been done in the first three months. There were now signs that the housing markets in Germany and the UK were turning the corner, but the French market remained tough with construction output forecast to fall by 3 per cent this year.

The group, which employs 15,000 worldwide, expects to shed a further 250 jobs in France where its aggregates business has been struggling.

Most of the remaining cuts will be in Germany, where management has announced plans to generate annual savings of £25m. Only a few jobs will be lost in the UK and US, says Redland.

The cost-cutting measures are separate from efforts to restructure its building materials business through the sale of its west European roof tiles operation to Braas, its majority-owned German arm.

French profits slumped to just £400,000 (£9.4m). US profits, despite problems at Genstar in Maryland, rose to £17.2m (£13.4m).

East or west: rigorous controls are still best

Several questions remain about Jardine Fleming

Jardine Fleming yesterday sought to draw a line under its recent troubles with the annoucement of the resignation of its chairman and a reorganisation which brings the Hong Kong investment banking joint venture under tighter control.

But there remain several questions about Jardine Fleming's ability to claw back the reputation it has lost since the discovery that Mr Colin Armstrong, its chief fund manager, diverted profitable trades to his personal account.

The management restructuring unveiled yesterday – in which Mr Henry Strutt, managing director, takes the post of executive chairman – appears to be an attempt to regain market confidence.

By moving Mr Strutt, who commands a good deal of respect, into the top slot the group should minimise any staff upheaval, and the move to introduce a new supervisory board into the structure is designed to win back investors' trust.

The make-np of that board, split equally between the two shareholding companies, Robert Fleming of the UK and Jardine Matheson of Hong Kong, also allays – at least for now – the possibility that Flemings would tighten its grip on the company.

In a further bid to beef up management, a rash of appointments has been made. Organiaational changes include a separation of compliance and internal audit functions, and a split in the company legal department into company secretary duties and group legal activities.

But there are still several issues outstanding which Jardine Fleming will have to address before it can put the highly embarrassing affair behind it.

Jardine Fleming will need to put to rest competitors' allegations, based on the evidence of the Armstrong case, that large-scale personal account trading by its executives may have infinenced the treatment of outside clients.

The challenge of restoring client confidence comes at a particularly sensitive time.

A number of Hong Kong's biggest pension funds, including the MTRC mass transit corporation which now has HK$600m (£50m) with Jardine Fleming, are in the throes of reviewing their fund managers.

The impending mandatory provident fund, being legislated by the government, has prompted trustees and others to start talent spotting.

Mr Stanley Yip, director of pension funds for the Bank of Bermuda, which acts as trustee on a number of big accounts in the territory, says: "There are a lot of reviews going on. Under the MPF, the trustee will be given a heavier burden than before: if something goes wrong in the case of a fund manager, the trustee will also be responsible. So we have to exercise much better control over the whole process."

Mr Morrison said the groups within the Jardine empire would continue to invest with Jardine Fleming.

"We have every confidence in their fund managemetit capability, and all the more so with these steps having been taken," he said.

But his conviction is tiot unanimously shared. Mr John Manser, chief executive of Flemings, disclosed yesterday that two fund management clients of Jardine Fleming had sacked the group as a result of the Armstrong affair.

Even with the emergence of the newly strengthened structure, some in the industry believe Jardine Fleming still faces an uphill struggle to claw its way back. While the departure of Mr Alan Smith, chairman of Jardine Fleming, the Hong Kong based investment bank, allows Jardine Fleming to begin this process of renewal, it poses a new challenge too. "Alan Smith was the driving force behind that group," says a leading broker for a rival investment bank.

The new management of Jardine Fleming will have to replace his energy.

Louise Lucas and Nicolas Denton

Pearson in South African talks

By Raymond Snoddy

Pearson, publisher of tbe Financial Times, is negotiating the possibility of taking a 50 per cent stake in two South African business publications.

The media group hopes to buy stakes in Business Day, the country's leading business daily, and Financial Mail. Both are part of the Times/Mirror gronp which also pnblisbes the Sunday Times in South Africa.

Initial talks also included the Sunday Times, bnt the negotiationa are now focused entirely on the business publications.

No agreement bas yet been reached on price and there are political sensitivities, but the potential deal would fit Pearson's strategy of investing in business and financial pnblications around the world.

Pearson executives have been to Sonth Africa for talks with Johnnic, the maln bolding company, which includes the interests of the Natlonal Empowerment Consortinm, designed to bring black businessmen into the mainstream of South African life.

If agreement ls reached over a joint venture for thc titles, the aim would be to build up their strength.

A restructuring of the South African press haa brought in new players such as Independent Newspapers of Ireland.

Fyffes exits US banana market

By David Blackwell

Fyffes, the fruit and vegetable distributor, yesterday effectively withdrew from the US banana market and announced a joint shipping venture with Dole, the world's largest banana group.

The group has sold its 50 per cent share in Banana Trading, owner of banana farming operations in Guatemala and Honduras, to Dole for $26.3m – equal to the book value of the assets.

Mr Carl McCann, deputy chairman of Fyffes, said that Banana Trading had been anpplying tbe gronp's unprofitable US marketing operations.

The shipping agreements would be "mutually beneficial", and both transactions would be earnings enhancing in 1996-97.

Under the deal, more than 10 per cent of Fyffes bananas sourced in Latin America will be transported to Europe by Dole.

This will lead to significant economies of scale for both companies, according to Mr Michael Bourke, food analyst with Panmure Gordon, Fyffes UK broker.

Historically the transport of bananas has proved expensive because the fruit is picked up from many different ports and delivered to a wide spread of markets.

Fyffes acquired two banana boats valued at £55m when it bought Geest's banana business at tba beginning of this year, but has chartered them to an Ecuadorean company at cost because they were too big for the West Indies trade. It has proved more economic to charter smaller boats.

Fyffes said the sale proceeds would be used to contimne its European expansion plans.

COMPANIES AND FINANCE: UK

AEA shares rise 15% on first day trading

By Leyla Boulton, Environment Correspondent and James Blitz, Political Correspondent

Shares in AEA Technology rose on their first day of trading to 15 per cent above the privatisation offer price, allowing the government to claim a success in its last flotation before the next election.

Volume of 19m shares in the science and engineering group accounted for about 3 per cent of total shares traded on the London stock exchange yesterday as a handful of institutions sought to top up their holdings.

The shares, priced at 280p, climbed to a high of 332p by mid-day, before closing at 322½p.

Mr Alexander Johnston of Lazards, the merchant bank, who advised AEA Technology, justified the price jump, saying government "had to leave something at the table" as with any new flotation.

He conceded, however, that the placing had been difficult to price because of the absence of a comparable company.

Based on analysts' earnings per share forecasts of 18.5p for the year to March 1997, the closing price gives AEA a forward p/e ratio of 17.5. This represents a premium to the market as a whole, and is not far behind the support services sector's 18.6 multiple.

The government claimed that yesterday's trading was a "splendid result".

However, Mr Adam Ingram, shadow energy minister, said the government had "failed to maximise the importance of the facility for the greater public good".

The company was priced at the top end of an indicative range which was itself raised on Monday amid unexpectedly strong demand for tha shares.

Unlike most privatisations by Conservative governments, the £224m ($349m) sale was not offered to small investors.

German purchases for Clyde

Clyde Blowers, the Glasgow-based manufacturer of soot-blowing equipment, has acquired two rivals for £17.1m ($26.7m) from Deutsche Babcock Group, the troubled German engineering conglomerate, writes Geoff Dyer.

The group has bought Bergemann Germany and the assets of Bergemann USA in a deal which will more than double its sales and make it one of the world's top two manufacturers in this market.

The buy is to be partly financed by e £12m 2-for-3 rights issue, underwritten by Guinness Mahon at 265p, a 28 per cent discount to Wednesday's close of 339p.

RESULTS

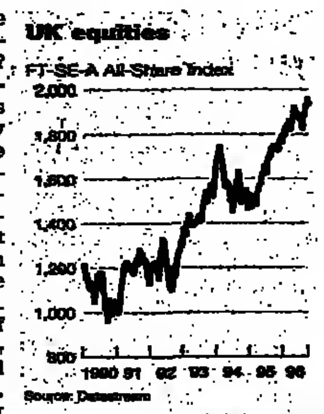
Company	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Andrews Sykes	6 mths to June 30	26.1	(22.7)	3.41	(1.48L♠)	14.2†	(16.6L)	3.5	Nov 29	nil	-	3
Beazer Homes	Yr to June 30	380.2	(413.2)	46.5	(55.7)	11.78	(13.95)	4	Nov 15	3.9	6	5.85
British Dredging	6 mths to June 30	16	(16)	0.775	(0.685)	2.96	(2.62)	2.6	Dec 9	2.6	-	5.6
Bruntcliffe Agg	6 mths to June 30	13.7	(11.8)	0.601	(0.86)	0.6	(1)	0.4	Nov 29	0.4	-	1.25
English & O'seas	6 mths to June 30	5.31	(3.24)	0.251	(0.343)	0.25†	(0.41)	0.3	Nov 18	0.33	-	0.93
Garton Eng	6 mths to June 30	14.7	(15.3)	0.488	(0.665)	8.68	(11.43)	1.6	Dec 2	1.5	-	6.75
Grampian Hold'gs	6 mths to June 28	74	(70.8)	4.75	(4.29)	4.85	(4.34)	1.95	Nov 14	1.8	-	6.2
Green (Ernest)	Yr to June 30	6.44	(7.95)	0.573L	(0.354)	5.9L	(2.3)	1	Dec 6	2.7	1	5.1
Guinness	6 mths to June 30	2,048	(2,037)	357	(340)	12.4‡	(11.6)	4.55	Nov 5	4.2	-	14.9
Harmony Property	Yr to March 31	2	(5.93)	5.3L♠	(1.95L)	3.31L	(1.23L)	nil	-	nil	nil	nil
Hawtal Whiting	6 mths to June 30	42.1	(38.5)	1.81	(0.845)	6.7#	(0.6#)	-	-	-	-	2.5
Higgs & Hill	6 mths to June 30	173.7	(165.9)	1.84L	(0.593)	3.6L†	(0.7)	1	Dec 5	1	-	2.5
Humlleigh Tech	6 mths to June 30	48.2	(47.5)	7.86	(7.17)	18.55	(16.82)	4	Nov 1	3.5	-	6
Ind Radio Φ	9½ mths to June 30	0.57	(-)	0.75L	(-)	7.5L	(-)	-	-	-	-	-
Linton Park	6 mths to June 30	83.6	(87.4)	4.16	(5.28)	15.7	(20.3)	6.25✠	Nov 11	6.25	-	18.75
Malaya	6 mths to June 30	169.9	(151.3)	1.08♠	(1.45)	0.48	(0.66)	0.33	Oct 31	0.33	-	0.66
McBride	Yr to June 30	486.1	(441.2)	20.7♠	(27.1)	6.5	(20.9☆)	4.45	Nov 16	-	6.7	-
MediaKey	6 mths to June 30‡	5.8	(-)	0.802	(0.001)	1.7	(-)	0.375	Nov 14	-	-	-
Mellek Φ	6 mths to June 30	5.44	(6.98)	0.274	(0.267)	2.92†	(3.75)	1.25	Oct 25	1.16	-	2.5
My Kinda Town	Yr to June 30	31.4	(27.8)	2.57♠	(3.4♥)	10.3	(10.1)	2	Dec 6	2	3	3
Norcor	6 mths to June 30	24.9	(28.8)	0.345	(1.98)	0.9	(5.3)	1.1	Nov 22	1.65	-	4.75
Oliver	6 mths to June 29	29.4	(34.5)	7.55♥	(3.15L)	29.96	(12.45L)	nil	-	nil	-	nil
OmniMedia Φ	6 mths to June 30	0.251	(0.2)	0.671L	(0.279L)	3.16L	(1.76L)	-	-	-	-	-
Pochin's	Yr to May 31	47.7	(36.7)	3.58	(2.1)	15.1	(8.1)	1.75	Dec 2	1.2	2.5	1.6
Ramco Energy §	6 mths to June 30	4.17	(3.61)	0.853	(0.61)	2.91	(2.16)	-	-	-	-	1
Redland	6 mths to June 30	1,184	(1,296)	95.5♥	(165.2♥)	9.4	(14.3)	5.5	Dec 16	5.5	-	16.67
Renishaw	Yr to June 30	77.1	(62.7)	20.1	(13.5)	26.26	(18.04*)	5.76	Nov 25	4.187*	8.65	6.41*
Seafield	6 mths to June 30	4.7	(8.7)	0.121	(3.02L♠)	0.2	(4.5L)	nil	-	nil	-	nil
TDS Circuits §	6 mths to June 30	6.66	(5.21)	0.305	(0.136)	0.77	(0.03L)	-	-	-	-	-
Trafford Park Est	Yr to June 30	11.9	(21)	7.16	(10.43♠)	7.31	(10.37)	2.55	Nov 11	2.3	3.6	3.3
Trinity Holdings	6 mths to July 31	125.7	(100.6)	8.06♠	(7.51)	9.7†	(9.7)	2.8	Jan 31	2.6	-	8.2
Yule Catto	6 mths to June 30	193.3	(195)	17.4	(16)	10.6	(9.5)	3.6	Nov 21	3.2	-	6

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Tot year	Tot year
F&C Pacific	6 mths to July 31★	188.3	(169.5)	2.52	(3.42)	1.1	(1.48)	0.6	Nov 8	0.8	-	1.85
F&C US Smaller	Yr to June 30	157.8	(120)	0.101L	(0.008L)	0.2L	(0.02L)	-	-	-	-	-
Perpetual Japanese	Yr to July 31	86.1	(81.4)	0.176L	(0.19L)	0.48L	(0.52L)	-	-	-	-	-
Premium	Yr to Aug 31	108	(93.9)	0.842	(0.855)	4.25	(4.32)	2.3	Nov 29	2	3.8	3✠
Schroder Japan	Yr to July 31	86.12	(83.41)	nil	(nil)	nil	(nil)	-	-	-	-	-

Earnings shown basic except #Fully diluted. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡On reduced capital. ☆Restated. ΦAim stock. ‡Comparatives for four months. §USM stock. *Equivalent after adjusting for scrip issue. ★Comparatives restated. ✠Excludes 0.5p special.

LEX COMMENT

Executive pay



Should shareholders have a right to vote on directors' pay packages? Britain's National Association of Pension Funds is very certain that they should not. One can see why; doubtless it is attractive for institutional investors to leave tricky arguments about fat cat salaries to remuneration committees. But imagine that such a right existed. In the vast majority of cases, where the remuneration committee had clearly done a sensible job, its proposals would rightly go through on the nod. And in the few cases where salaries were a matter of controversy, e shareholder vote would surely be e good idea. At present, the decision rests with a committee of company directors; they may be non-executive, but in the public eye they rarely look entirely independent. And it is not their money at stake. By contrast, shareholders ultimately bear the cost of employing an executive; a clear vote from them in favour of a controversial high salary would have a great deal more force than anything directors might say.

Of course, institutions argue, they are already in a position to exert informal pressure where a pay package worries them. And ultimately, they can vote against a director's appointment. Absolutely true. But this objection implicitly acknowledges that top salaries are a proper shareholder concern; if so, it makes sense that shareholders should have the right to vote on pay without having to threaten the nuclear option of ejection.

Celltech wins US antibodies patent

By Daniel Green

Celltech has won a wide-ranging patent in the US that could lead to a stream of royalty income for the Slough biotechnology company.

Its shares rose 22p to 522p.

It already has the European patent, but Celltech said the income from the US "will be more significant in the near term" because of several drugs owned by other companies that are in the final stages of testing in the US. The patent covers a way to build new human antibodies that maximises their efficacy as medicines.

It also covers Celltech's own antibodies in clinical development, extending their period of protection to 2014.

Celltech has other patent agreements in antibody technology with Genentech of California and the Medical Research Council in the UK. It has not discussed with either the implications of the new patent, called the "Adair patent". Protein Design Laboratories, a US company, is also closely involved in the technology.

Convergence overcomes budget worries

GOVERNMENT BONDS

By Samer Iskandar in London and Lisa Bransten in New York

Uncertainty due to 1997 budget plans – both the Italian and Spanish governments will be presenting theirs today – slowed the convergence process yesterday, but failed to halt it.

The Italian 10-year yield spread over German bunds tightened for the sixth consecutive day to 270 basis points, from 275 points on Wednesday and 304 points on September 18.

Meanwhile, the lira traded up through L1,000 into three-digit territory against the D-Mark, reaching a two-year high of around L994.

"The market seems to believe that up to 12 countries will join the single currency in 1999," said Ms Marie Owens Thomsen, chief economist at BIP-Dresdner Bank in Paris, who considers this view "over-optimistic".

"We could still see a confidence crisis in the near future," she warned. But looking further down the road, Ms Owens Thomsen believes "a long-term Emu scenario is now rooted in the market".

Liffe's December BTP future settled at 120.43, up 0.49, then rallied sharply in after-hours trading to a new record high of 121.78, on indications that the planned budget deficit would be contained at 3 per cent of GDP. Implicit support for the government's budget by the Reformed Communist party was also a bullish factor.

■ Spanish bonds also outperformed other markets, the 10-year yield spread over bunds narrowing by 3 basis points to 190 points, as the benchmark 2006 government bond rose 0.40 to 105.31.

"The Spanish market has managed to ignore politics," said Ms Juli Collins-Thompson, an economist at Yamaichi in London. But she warns that the present bullishness might be overdone.

"GDP growth of 3 per cent [the government's assumption in drafting the 1997 budget] seems a bit optimistic", she said. Yamaichi's forecast is closer to 2.5 per cent, which would imply a higher deficit ratio.

■ Signs of a sharp slowdown in the US economy sent Treasury prices sharply higher, despite another round of supply due to come on to the market after an afternoon auction of five-year notes.

Near midday the benchmark 30-year Treasury was 28/32 stronger at 98 11/32 to yield 6.886 per cent, a four basis point drop from its level of late Wednesday. At the short end of the maturity spectrum, the two-year note was 3/32 stronger at 99 27/32, yielding 6.034 per cent. The December 30-year bond future rose 13/32 to 109 25/32.

The two-year to 30-year yield curve reversed its recent trend and flattened by two basis points as data on durable goods orders suggested that the economy was slowing. The Commerce Department said that durable goods orders tumbled 3.1 per cent in August while economists had expected a 0.1 per cent increase.

Economists warned that the data tend to be volatile, but they were in general agreement that the sharp decline should reduce fears of inflation.

"We are likely to see a very healthy rebound in the September orders data," said Mr Joseph Liro, of CIBC Wood Gundy. "Nevertheless, the weakness in the August durable goods orders report fits well with the Federal Reserve's belief that the economy is slowing enough in the second half to head off building inflationary pressures."

Existing five-year notes added 3/32 to 100 1/32 to yield 6.409 per cent, as the market prepared for the Treasury's auction of $12.5bn of new five-year notes. On Wednesday, the market rallied after relatively strong demand was shown at a two-year note auction.

Tag Heuer issue set for heavy oversubscription

Ten years ago the prospect of international institutions buying shares in Tag Heuer, then a small Swiss manufacturer of diving watches, might have seemed unlikely. But the company is today set to raise some SFr600m in an international issue expected to be heavily oversubscribed.

Investors have been excited by several elements of the Tag Heuer story. Since the current management team was recruited from Booz, Allen & Hamilton in 1988, it has seen sales and profits increase consistently. It has successfully changed its brand image, repositioning itself as a luxury sports watch maker.

Consolidated net sales have increased from SFr68m in 1988 to SFr380m in 1995, with sales rising particularly sharply in east Asia. By making extensive use of outsourcing it has kept a firm grip on costs, lifting its return on capital employed to 111 per cent in 1995.

This record is impressive in itself, but it also stands comparison with the performance of other companies in luxury goods, a sub-sector whose shares are viewed as increasingly attractive.

Analysts argue that the polarisation of wealth as a result of worldwide economic liberalisation and growth in east Asia has created big pools of demand for branded upmarket fashion-wear, jewellery and accessories, underpinning fast growth in the sector.

Luxury goods companies are able to charge premium prices, helping them secure higher margins than their more conventional counterparts. SBC Warburg's European luxury lifestyle index – made up of 10 companies – has risen by some 40 per cent since last summer.

New international share issues by Gucci, the Italian fashion house, and Bulgari, an Italian company which makes jewellery, perfumes and watches, have been well received.

Not everyone, however, is convinced by Tag Heuer. Some argue that the stock should be compared not with other luxury producers but with other watchmakers, such as SMH of Switzerland.

Mr Frederick Hasslauer, financial analyst with Bank Sal Oppenheim in Zurich, says if Tag's shares are priced at SFr245, it looks overvalued compared with SMH. Estimates of Tag's 1997 earnings multiple of more than 20 compare with only 12 to 13 for its bigger rival.

In particular, SMH's control of production should give it an edge in developing new watch technology which, Mr Hasslauer believes, will become an increasingly important element of competition in the next few years.

He also doubts Tag Heuer's ability to move further up-market, at a time when SMH's own Omega brand is making great strides in that sector.

"Tag Heuer has a fantastic track record and there is no doubt it deserves to come to the market on a high multiple. But the current valuation is stretched," he says.

Ms Camilla Reeves, fund manager with Hambros, agrees and says she will not be buying the stock. "It is all looking a bit bubbly. You really are giving them the benefit of the doubt if you pay out these multiples," she argues.

Richard Lapper

Northern Rock makes rare appearance in sterling

INTERNATIONAL BONDS

By Conner Middelmann

The eurobond market bad another active day yesterday, seeing a flurry of new issues in a wide variety of currencies.

The UK's Northern Rock Building Society made a rare appearance with £150m of 25-year subordinated bonds, which it issued to help restructure its balance sbeet ahead of converting to bank status next year. Northern Rock ranks second in UBS's relative creditworthiness league table.

The issue was warmly received and deemed fairly priced at a spread of 118 basis points over gilts.

"It was a nice deal – Northern Rock has a strong credit story," said one trader. According to lead Merrill Lyncb, the bonds went mainly to UK institutions such as life companies and pension funds.

Also in the sterling sector, the European Investment Bank increased an outstanding £400m 10-year bond issue by a further £200m; when they were first launched in January, the bonds yielded 15 basis points over gilts; that gap narrowed to as little as 3 basis points recently, and yesterday's bonds were priced at 7 over gilts.

Joint leads BZW and HSBC Markets reported widespread institutional demand across Europe.

In the dollar sector, GECC issued $250m of six-year bonds wbicb attracted switching out of existing bonds by the same borrower, lead UBS said.

GECC's bonds maturing in January 2001 and February 2002 currently yield 3 basis points below Treasuries, while the new bonds were priced to yield 10 basis points over Treasuries.

UBS reported good sales to Swiss and Benelux retail accounts, as well as institutions attracted by the short payment period.

GECC also issued DM225m of three-year bonds yielding 1 basis point below bunds, via SBC Warburg.

Also in D-Marks, a DM375m convartible bond for Bayer, the German chemicals and pbarmaceuticals group, was three times subscribed, lead Deutsche Morgan Grenfell said. As a result, it was priced at the tight end of its indicated yield range: the bonds yield 3.8 per cent to maturity and have a conversion premium of 25 per cent.

The dollar market was abuzz with talk of a possible global issue for Brazil, which was seeking bids for $750m of five-year or 10-year bonds. Dealers said the likely pricing was hard to assess.

"On the one hand, Brazil's credit rating is lower than Argentina's and Mexico's at B+/B1, but on the other it has so few bonds outstanding that tha issue should see high demand," said a dealer.

Some said the issue might be used to redeem some of Brazil's Brady bonds, following recant bny-backs by Mexico and the Philippines.

Brazil's Acesita, the largest speciality steel producer in Latin America, issued $150m of bonds which saw such demand that the yield spread narrowed to 457 basis points over Treasuries, from 472 points at launch, lead manager ABN Amro Hoare Govett aid.

The World Bank tapped the Czech koruna sector with the first deal in that currency to be aimed primarily at US investors. Tha Kc2bn one-year issue takes advantage of the bank's special status, whereby any issues launches in global registered note form can be sold immediately into the US rather than after a 40-day seasoning period, lead manager ING Barings said.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
GECC	250	6.50	99.169R	Oct 2002	0.275R	+10(WI 5yr)	UBS
Acesita(a)	150	11½#	98.60R	Oct 2004	1.00R	+472(WI 5yr)	ABN Amro Hoare Govett
■ D-MARKS							
Bayer Corporation(b)§	375	1.00	87.47	Oct 2001	2.50	-	Deutsche Morgan Grenfell
GECC(s)	225	4.25	100.00R	Dec 1999	0.1675R	-1(7%-99)	SBC Warburg
■ YEN							
Hankyu Corp(c,s)§	10bn	1.50#	100.00	Sep 2006	2.50	-	Daiwa Europe
■ SWISS FRANCS							
SmithKline Beecham Capital	125	3.25	102.25	Nov 2000	1.75	-	Merrill Lynch Capital Mkts
■ STERLING							
European Inv Bank(d,s)	200	7.625	98.098R	Dec 2006	0.325R	+7(7½%-06)	BZW/HSBC Markets
Northern Rock B/S	150	9.375	98.316R	Oct 2021	0.625R	+118(8%-21)	Merrill Lynch Intl
■ GUILDERS							
Achmea Hypotheekbank	200	6.75	99.63R	Oct 2006	0.50R	+77½(i)	Rabobank International
■ LUXEMBOURG FRANCS							
SOAE	3bn	6.375	102.25	Nov 2006	2.00	-	BIL
■ AUSTRALIAN DOLLARS							
NSW Treasury Corp★	200	8.00#	99.052	Oct 1999	1.375	-	Nomura International
■ CZECH KORUNA							
World Bank	2bn	11.50	100.10R	Oct 1997	0.15R	-	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. §Convertible. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Puttable on 15/10/01 at par. b) Conversion price: DM71.375. Callable from 16/10/98 at accreted value. c) Fixing: by 4/10/96, 15% conv premium. Puttable on 30/9/03 at 101.50% subject to 120% knockout level clause. Refixing clause effective 21/12/99; 2½% premium, minimum 75%. d) Fungible with £400m. Plus 264 days accrued. i) Over interpolated yield. s) Short 1st coupon

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	93.1300	+0.530	7.74	7.96	8.00
Austria		6.250	06/06	100.7700	+0.130	6.04	8.14	6.27
Belgium		7.000	05/06	105.4000	+0.230	6.23	6.39	6.58
Canada *		7.000	12/06	98.9900	+0.340	7.14	7.40	7.29
Denmark		8.000	03/06	106.7000	+0.400	7.00	7.13	7.21
France	BTAN	6.500	10/01	101.3160	+0.130	5.20	5.33	5.61
	OAT	6.500	10/06	102.8100	+0.260	6.10	6.22	6.33
Germany Bund		6.250	04/06	101.2800	+0.160	6.06	6.18	6.25
Ireland		8.000	08/06	106.5500	+0.400	7.05	7.26	7.52
Italy		9.500	02/06	105.8800	+0.560	8.57†	8.93	9.30
Japan	No 140	6.600	06/01	121.1664	-0.060	1.74	1.77	2.18
	No 182	3.000	09/05	101.0710	-0.330	2.85	2.83	3.11
Netherlands		6.500	06/06	118.2500	+0.100	5.95	6.06	6.23
Portugal		9.500	02/06	109.9800	+0.730	7.94	8.20	8.69
Spain		8.800	04/06	105.3100	+0.400	7.96	8.23	8.91
Sweden		6.000	02/05	81.0552	+0.060	7.47	7.70	8.06
UK Gilts		6.000	12/00	103-25	+10/32	6.94	7.03	7.01
		7.500	12/00	98-24	+14/32	7.68	7.79	7.77
		9.000	10/08	109-09	+15/32	7.80	7.92	7.90
US Treasury *		7.000	07/06	102-16	+15/32	6.62	6.85	6.55
		6.750	08/26	98-11	+28/32	6.88	7.06	6.80
ECU (French Govt)		7.000	04/06	104.3000	+0.340	6.38	6.60	6.76

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.03
Prime rate	8¼	Two month	-	Three year	6.21
Broker loan rate	7	Three month	5.00	Five year	6.40
Fed.funds	5 5/16	Six month	5.25	10-year	6.65
Fed.funds at intervention	-	One year	5.64	30-year	6.88

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	124.60	124.78	+0.26	124.98	124.58	175,105	206,936
Mar	124.50	124.64	+0.26	124.78	124.48	2,339	20,486
Jun	123.42	123.56	+0.26	123.70	123.42	268	406

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Oct	Nov	Dec	PUTS Oct	Nov	Dec
121	-	3.82	-	-	0.04	0.16
122	-	-	-	-	0.13	0.30
123	1.78	1.94	2.05	-	0.30	0.56
124	0.78	1.07	1.34	-	0.70	0.99
125	-	0.48	0.78	0.22	-	-

Est. vol. total, Calls 33,220 Puts 21,821. Previous day's open int., Calls 158,490 Puts 155,195.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.74	98.85	+0.17	99.00	98.98	199360	223372
Mar	97.80	97.85	+0.15	97.97	97.72	1197	2942

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Nov	Dec	Jan	Mar	PUTS Nov	Dec	Jan	Mar
9850	0.69	0.93	0.60	0.92	0.34	0.58	1.25	1.57
9900	0.41	0.66	0.42	0.71	0.56	0.81	1.57	1.86
9950	0.22	0.44	0.29	0.55	0.87	1.09	1.94	2.20

Est. vol. total, Calls 21055 Puts 13340. Previous day's open int., Calls 139734 Puts 133184

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	120.30	120.43	+0.46	121.78	120.19	96667	78232
Mar	119.57	118.70	+0.45	119.57	119.57	50	716

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	Mar	PUTS Dec	Mar
12000	1.73	1.99	1.30	2.29
12050	1.43	1.74	1.50	2.54
12100	1.16	1.52	1.75	2.82

Est. vol. total, Calls 19829 Puts 5931. Previous day's open int., Calls 83903 Puts 116259

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	106.12	105.84	+0.42	106.49	106.09	89,258	75,441

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	108-25	109-00	+0-10	109-02	108-25	535	8566
Dec	107-31	108-15	+0-15	108-21	107-30	93353	140290

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Nov	Dec	Jan	Mar	PUTS Nov	Dec	Jan	Mar
108	1-00	1-22	1-12	1-39	0-34	0-56	1-38	2-01
109	0-30	0-52	0-51	1-12	1-00	1-22	2-13	2-38
110	0-12	0-30	0-33	0-54	1-48	2-00	2-59	3-16

Est. vol. total, Calls 4440 Puts 1683. Previous day's open int., Calls 18001 Puts 18029

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	93.32	93.68	+0.40	93.98	93.32	2,621	7,796

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	109-08	109-25	+0-13	109-31	109-04	388,089	360,361
Mar	108-28	109-10	+0-18	109-15	108-22	2,261	20,321
Jun	108-17	108-28	+0-19	108-28	107-16	84	5,324

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	121.98	-	-	121.96	121.78	1863	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Sep 26	Day's change %	Wed Sep 25	Accrued interest	xd adj. ytd		Low coupon yield Sep 26	Sep 25	Yr. ago	Medium coupon yield Sep 26	Sep 25	Yr. ago	High coupon yield Sep 26	Sep 25	Yr. ago
1 Up to 5 years (22)	121.28	0.10	121.16	1.84	7.89	5 yrs	7.08	7.16	7.76	7.17	7.23	7.76	7.22	7.29	7.78
2 5-15 years (20)	149.26	0.40	148.78	3.13	7.61	15 yrs	7.96	8.01	8.22	7.94	8.01	8.27	7.95	8.01	8.35
3 Over 15 years (8)	163.04	0.71	161.89	2.50	9.83	20 yrs	8.07	8.12	8.24	8.04	8.11	8.29	8.04	8.11	8.37
4 Irredeemables (6)	188.34	0.94	186.94	3.27	8.83	Irred.†	8.06	8.18	8.32						
5 All stocks (56)	143.18	0.36	142.71	2.57	8.20										

Index-linked							Inflation 5% Sep 26	Sep 25	Yr. ago	Inflation 10% Sep 26	Sep 25	Yr. ago
6 Up to 5 years (2)	201.25	0.07	201.11	0.79	4.43	Up to 5 yrs	2.86	2.87	3.11	2.19	2.20	2.00
7 Over 5 years (10)	191.27	0.45	190.42	1.41	3.65	Over 5 yrs	3.54	3.57	3.68	3.34	3.37	3.50
8 All stocks (12)	191.28	0.40	190.51	1.39	3.66							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Sep 26	Sep 25	Sep 24	Sep 23	Sep 20	Yr ago	High*	Low*
Govt. Secs. (UK)	93.74	93.28	93.31	93.15	93.31	92.98	96.34	91.58
Fixed Interest	113.50	113.26	113.13	113.15	113.15	111.63	115.23	110.74

GILT EDGED ACTIVITY INDICES

	Sep 25	Sep 24	Sep 23	Sep 20	Sep 19
Gilt Edged bargains	131.1	91.4	87.2	93.2	96.3
5-day average	99.8	93.4	94.3	95.3	93.9

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on September 26

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 8½ 00	1000	98¼	98½	+⅛	6.85
ABN Amro Bank 7¼ 05	1000	100⅛	100½	+⅛	7.36
African Dev Bk 7⅜ 23	800	96¾	97¼	+1	7.66
Alberta Province 7⅝ 98	1000	102½	102¾	+¼	6.31
Asian Dev Bank 6¼ 00	750	95¾	96	+½	7.01
Austria 8½ 00	400	105⅜	105⅞	+¼	6.55
Baden-Wuertt L-Fin 8⅛ 00	1000	104⅞	104⅝	+⅛	6.60
Bancomext 7¼ 04	1000	85⅝	85⅞	+½	10.31
Bank Ned Gemeenten 7 99	1000	101⅝	101⅞	+¼	6.35
Bayer Vereinsbk 8⅛ 00	000	104¼	104½	+⅛	6.54
Belgium 5½ 03	1000	92⅞	92⅝	+½	6.89
British Columbia 7¾ 02	500	104¼	104½	+⅛	6.82
British Gas 0 21	1500	14⅝	14⅞	+¼	7.98
Canada 6⅜ 05	1500	96¼	96⅝	+½	7.07
Cheung Kong Fin 5½ 98	500	97	97⅜	+⅛	7.15
China 8½ 04	1000	94⅝	95	+⅝	7.80
Credit Foncier 9½ 99	300	108⅜	108¾	+⅛	6.52
Denmark 5¾ 98	1000	98⅞	99⅝	+⅛	6.19

	Issued	Bid	Offer	Chg	Yield
Sweden 6 97	2500	104⅞	105		3.43
United Kingdom 7⅛ 97	5500	104	104		3.32
Volkswagen Intl Fin 7 03	1000	105½	105⅝	+¼	5.97
World Bank 0 15	3000	33¾	34⅛	+⅛	5.81
World Bank 5¼ 00	3000	101⅝	101½	+¼	5.63
SWISS FRANC STRAIGHTS					
Asian Dev Bank 0 18	500	38	39	+½	5.12
Austria 4½ 00	1000	106⅛	106¼	+⅛	2.58
Council Europe 4¾ 98	250	103½	103¾		2.16
Denmark 4¼ 99	1000	105¼	105½	+¼	2.42
EIB 3¾ 99	1000	103¾	104	+¼	2.09
EIB 6¾ 04	300	114¼	114¾		4.59
Finland 7¼ 99	300	112¼	112⅝	+⅛	2.97
Iceland 7⅜ 00	100	114⅝	115⅛	+⅛	3.49
Inter Amer Dev 4¾ 03	600	105¼	105⅝		3.87
Ontario 6¼ 03	400	112¾	113	+⅛	3.93
Quebec Hydro 5 08	100	101¾	102⅛	-⅛	4.79
SNCF 7 04	450	119⅞	119¾	+⅛	4.12

	Issued	Bid	Offer	Chg	Yield
Abbey Natl Treasury 6 00 £	1000	101⅜	101⅝	+⅛	7.71
British Land 8⅞ 23 £	150	92¾	93¾	+¼	9.87
Denmark 6¾ 98 £	800	100¼	100½		6.60
Depfa Finance 7¼ 00 £	000	96¾	97	+⅛	7.73
EIB 6 03 £	1000	102½	102⅝	+¼	7.50
Glaxo Wellcome 8⅞ 05 £	500	103½	103¾	+½	8.16
Hanson 10⅜ 97 £	000	103¾	104		6.60
HSBC Holdings 11.69 02 £	153	116½	116¾	+⅛	8.03
Italy 10½ 14 £	400	116¼	116½	+⅝	8.60
Japan Dev Bk 7 00 £	200	100	100¼	+¼	7.00
Land Secs 9½ 07 £	200	108⅜	108¾	+⅛	6.55
Ontario 11⅛ 01 £	100	113⅛	113⅜	+¼	7.43
Powergen 8⅞ 03 £	250	104¾	105	+⅛	7.90
Severn Trent 11½ 99 £	150	110⅜	110⅞	+⅛	7.15
Tokyo Elec Power 11 01 £	150	113¼	113½	+¼	7.52
TCNZ Fin 9¼ 02 NZ$	75	102⅞	103⅞	-⅛	8.58
World Bank 9 99 NZ$	250	101⅞	102¼		8.19
Credit Local 6 01 FFr	8000	102⅝	102⅞	+¼	5.40

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated.

UK GILTS PRICES

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

US and Europe thrive on D-Mark's decline

MARKETS REPORT

By Richard Adams

The D-Mark fell heavily in currency trading yesterday, squeezed between bullish US bond markets on one side and a rising tide of optimism about the European single currency on the other.

The dollar and sterling both benefited from increased demand for government bonds during the day. The Italian lira was at its strongest level against the D-Mark for two years.

US financial markets continued to rally after the Federal Reserve's decision to hold interest rates static. It was further boosted by mild economic data, which some thought justified the FOMC's decision not to raise rates.

The dollar surged by over a pfennig against the D-Mark, to DM1.5217 by the close of trading in London. The dollar had closed the previous day at DM1.5102.

Sterling jumped a pfennig and a half higher against the D-Mark, ending the day at DM2.3774 from DM2.3627.

The Bank of England's sterling trade-weighted index rose from 86.4 to 86.8 by the close.

But the day's star performer was the Italian lira, which reached its highest peak against the D-Mark since August 1994. The lira closed at L1,001, from L1,003, but during intra-day trading it touched L995.

Further signs of the D-Mark's weakness could be seen in its value against the Ecu. At the end of last week, one Ecu was worth DM1.895, but yesterday the D-Mark had fallen to DM1.908.

The Swiss National Bank surprised some in the market, by cutting its discount rate to 1.0 per cent, from 1.5 per cent.

■ The rising strength of the dollar and sterling followed stronger government bond prices, as inflation expectations receeded.

Short sterling interest rate futures contracts for 1997 and 1998 rose sharply. December 1997 prices rose 10 basis points, while September 1998 contracts rose 11 basis points.

Mr Philip Shaw, chief economist at Union Discount in London, said: "Short sterling was benefitting from follow-through of the Fed's decision not to raise rates."

"Otherwise, the markets are rallying generally, and there are lots of convergence trades. There's also more optimism that some of the smaller countries will qualify for Emu, and there's been a narrowing of bond spreads in the higher-yielding countries over Germany."

Mr Neil MacKinnon, chief economist at Citibank in London, said the market was "cautiously bullish," following benign inflation data in the UK and the US.

But he said that the "litmus test" for the Federal reserve's decision would be the labour market report next week, for signs of pressure on wages.

■ A Swiss National Bank spokesman said the central bank's decision to cut rates was aimed at "reassuring the market that the interest rate decline that took place since August will not be reveresed."

Since then the Swiss central bank has been supplying liquidity to the market, in an effort to aid Swiss exporters.

Despite the D-Mark's overall weakness, the Swiss franc still fell against the German currency from SFr0.817 to SFr0.822. Against the dollar the franc fell from SFr1.2335 to SFr1.2516.

■ The Italian lira's rise came on the eve of today's 1997 budget announcement. The first indications of the budget last night were for spending cuts of L50,000bn and the introduction of a special "European" tax. That would combine to cut the budget deficit to below 3 per cent of GDP, a major requirement for membership of European monetary union under the Maastricht treaty.

The budget efforts, combined with bullish sentiment in fevour of Emu going ahead, has boosted the Italian currency against the D-Mark in recent sessions.

Mr Marco Tudisco, head of spot trading at Banque Indosuez in Milan, said: "Once the budget talks in parliament finish, the lira could quickly reach a new low."

Mr Tudisco thought the lira was likely to stabilise around L1,000 to the D-Mark.

But Mr Chris Tinker, an analyst at Standard Chartered in London, was not convinced: "You can see the lira running out of steam, unless the budget is totally brilliant," he said.

■ Pound in New York

Sep 26	—Latest—	— Prev. close —
£ spot	1.5630	1.5620
1 mth	1.5624	1.5615
3 mth	1.5617	1.5610
1 yr	1.5595	1.5587

■ OTHER CURRENCIES

Sep 26	£	$
Czech Rp	42.1053 - 42.1585	26.9580 - 26.9780
Hungary	240.876 - 241.062	154.210 - 154.260
Iran	4686.10 - 4696.00	3000.00 - 3000.00
Kuwait	0.4686 - 0.4690	0.3000 - 0.3001
Poland	4.3752 - 4.3818	2.8010 - 2.8040
Russia	8444.17 - 8451.08	5406.00 - 5408.00
U.A.E.	5.7369 - 5.7400	3.6728 - 3.6731

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POUND SPOT FORWARD AGAINST THE POUND

Sep 26		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.7254	+0.1031	184 - 323	16.7381	16.6220	16.6942	2.2	16.6192	2.5	-	-	104.8
Belgium	(BFr)	48.9110	+0.255	922 - 297	49.0010	48.4380	48.816	2.3	48.626	2.3	47.856	2.2	108.3
Denmark	(DKr)	9.1336	+0.0495	302 - 374	9.1453	9.0774	9.1201	1.8	9.0998	1.5	8.9919	1.6	107.5
Finland	(FM)	7.1380	+0.0436	305 - 415	7.1460	7.0860	7.1318	0.7	7.1265	0.7	-	-	85.0
France	(FFr)	8.0406	+0.044	376 - 435	8.0496	7.9921	8.0265	2.1	8.0024	1.9	7.8955	1.8	108.9
Germany	(DM)	2.3774	+0.0147	764 - 783	2.3814	2.3616	2.3726	2.5	2.3626	2.5	2.3207	2.4	108.1
[illegible]													

† Rates for Sep 26. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.7053	+0.0606	032 - 073	10.7230	10.6490	10.6858	2.2	10.6438	2.3	10.4603	2.3	104.7
Belgium	(BFr)	31.3060	+0.206	010 - 110	31.3870	31.0006	31.251	2.1	31.1435	2.1	30.641	2.1	108.1
Denmark	(DKr)	5.8462	+0.0397	452 - 472	5.8582	5.8142	5.8387	1.5	5.8217	1.7	5.7527	1.6	108.9
Finland	(FM)	4.5675	+0.0342	650 - 700	4.5805	4.5395	4.561	1.7	4.549	1.6	4.5035	1.4	84.5
France	(FFr)	5.1465	+0.0352	457 - 472	5.1585	5.1205	5.1389	1.8	5.125	1.7	5.058	1.8	108.5
Germany	(DM)	1.5217	+0.0115	214 - 210	1.5283	1.5137	1.510	2.1	1.5132	2.2	1.486	2.3	107.7
[illegible]													

† SDR rate per $ for Sep 25. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Sep 25: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

September 26	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3¼	3	3⅛	3⅛	3⅛	6.00	2.50	-
week ago	3⅛	3	3⅛	3⅛	3⅛	6.00	2.50	-
France	3⅞	3⅞	3⅞	3⅞	3⅞	3.35	-	4.75
week ago	3½	3⅞	3¾	3⅞	3¾	3.35	-	4.75
Germany	3	3⅛	3⅛	3⅛	3¼	4.50	2.50	3.00
week ago	3⅛	3⅛	3⅛	3⅛	3¼	4.50	2.50	3.00
Ireland	5⅞	5⅞	5⅞	5⅞	5⅞	-	-	6.25
week ago	5½	5¾	5⅞	5¾	6⅛	-	-	6.25
Italy	8⅞	8⅞	8⅛	7⅞	7¾	-	8.25	8.22
week ago	8⅛	8⅞	8⅛	8¼	8⅛	-	8.25	8.50
Netherlands	2⅞	2⅞	2⅞	2⅞	3½	-	3.00	3.30
week ago	2¾	2⅞	2¾	2⅞	3⅛	-	3.00	3.30
Switzerland	1⅛	1⅛	1¾	1⅞	1⅞	-	1.00	-
week ago	1⅛	1⅛	1¾	1⅞	1⅞	-	1.50	-
US	5⅛	5⅞	5⅞	5⅞	6⅛	-	5.00	-
week ago	5	5⅞	5⅞	5⅞	5⅞	-	5.00	-
Japan	⅛	⅞	⅞	⅞	⅝	-	0.50	-
week ago	⅞	⅞	⅞	⅞	⅞	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅛	5⅞	5¾	6	-	-	-
week ago	-	5⅛	5¾	5⅞	6½	-	-	-
US Dollar CDs	-	5.06	5.18	5.32	5.58	-	-	-
week ago	-	5.08	5.30	5.45	5.75	-	-	-
ECU Linked Ds	-	4⅛	4½	4⅛	4¼	-	-	-
week ago	-	4⅛	4⅛	4⅛	4⅛	-	-	-
SDR Linked Ds	-	3⅛	3⅛	3⅞	3¾	-	-	-
week ago	-	3⅛	3⅛	3⅞	3¾	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Sep 26	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3⅛	3¼ - 3⅛
Danish Krone	3½ - 3⅞	3⅞ - 3½	3¾ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	4 - 3⅞
D-Mark	3⅛ - 2⅞	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 2⅞	3⅛ - 3	3¼ - 3⅛
Dutch Guilder	2⅞ - 2⅞	2⅞ - 2⅞	2⅞ - 2⅞	2⅞ - 2⅞	2⅞ - 2¾	3⅛ - 2⅞
French Franc	3½ - 3⅜	3½ - 3⅜	3½ - 3⅞	3⅞ - 3⅞	3⅝ - 3⅞	3⅞ - 3⅞
Portuguese Esc.	7⅞ - 6⅞	7⅞ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	7 - 6⅞	7 - 6⅞
Spanish Peseta	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6¾	6⅞ - 6¾
Sterling	6 - 5¾	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	6¼ - 6⅛
Swiss Franc	1⅜ - 1⅛	1½ - 1¼	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1¾ - 1⅝
Can. Dollar	4⅛ - 4⅛	4 - 3⅞	3⅞ - 3⅞	4⅛ - 3⅞	4⅛ - 4⅛	4½ - 4⅜
US Dollar	5⅞ - 5⅛	5⅞ - 5⅛	5⅞ - 5⅝	5⅞ - 5⅝	5⅞ - 5⅞	5⅞ - 5⅞
Italian Lira	8⅝ - 7¼	8⅞ - 8⅞	8⅞ - 6⅛	8⅞ - 8⅞	8⅞ - 8	7⅞ - 7¾
Yen	½ - ⅜	½ - ⅜	⅞ - ⅞	⅞ - ⅜	⅝ - ½	⅞ - ⅞
Asian $Sing	3⅜ - 3¼	3⅜ - 3¼	3¼ - 3⅛	3¼ - 3⅛	3¼ - 3⅛	3½ - 3⅜

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.27	96.29	+0.03	96.31	96.26	27,208	61,495
Mar	96.22	96.24	+0.04	96.25	96.20	7,038	38,614
Jun	96.18	96.15	+0.04	96.16	96.11	2,519	24,942

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.85	96.85	-	96.86	96.84	90593	221729
Mar	96.77	96.78	+0.01	96.81	96.77	49613	212131
Jun	96.60	96.61	+0.02	96.64	96.59	33387	159451
Sep	96.33	96.35	+0.02	96.39	96.33	29260	128408

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.14	92.14	+0.05	92.30	92.11	37214	55262
Mar	92.53	92.55	+0.05	92.72	92.52	11912	81686
Jun	92.71	92.72	+0.04	92.87	92.71	4718	24785
Sep	92.77	92.77	+0.05	92.89	92.78	2206	12577

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.26	98.44	+0.18	98.50	98.25	19493	40795
Mar	98.18	98.37	+0.21	98.40	98.15	11280	21389
Jun	97.93	98.13	+0.21	98.14	97.92	2384	8082
Sep	97.66	97.83	+0.18	97.85	97.66	1044	2253

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.37	99.37	-	99.37	99.37	21	n/a
Mar	99.18	99.20	-0.01	99.20	99.18	383	n/a
Jun	98.99	99.00	-0.02	99.00	98.99	649	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.83	95.86	+0.03	95.87	95.83	1495	9053
Mar	95.81	95.83	+0.03	95.84	95.81	584	3750
Jun	95.73	95.76	+0.04	95.78	95.73	309	2763
Sep	95.55	95.59	+0.05	95.60	95.55	386	1825

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Sep 26		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.68	16.44	4.860	1.993	4864	5.453	20.73	494.8	408.9	21.24	3.997	2.045	4.369	3.194	352.5	2.548
Denmark	(DKr)	53.55	10	8.803	2.602	1.067	2605	2.920	11.10	264.9	219.0	11.38	2.140	1.095	2.340	1.710	188.7	1.364
France	(FFr)	60.83	11.36	10	2.956	1.213	2959	3.317	12.61	301.0	248.7	12.92	2.431	1.244	2.658	1.943	214.4	1.550
Germany	(DM)	20.58	3.843	3.383	1	0.410	1001	1.122	4.266	101.8	84.14	4.371	0.822	0.421	0.899	0.657	72.53	0.524
Ireland	(I£)	50.18	9.368	8.247	2.438	1	2440	2.735	10.40	248.2	205.1	10.66	2.005	1.026	2.192	1.602	176.8	1.278
Italy	(L)	2.056	0.384	0.338	0.100	0.041	100.	0.112	0.426	10.17	8.407	0.437	0.082	0.042	0.090	0.066	7.247	0.052
Netherlands	(Fl)	18.34	3.425	3.015	0.891	0.366	892.0	1	3.802	90.74	74.99	3.896	0.733	0.375	0.801	0.586	64.64	0.467
Norway	(NKr)	48.23	9.008	7.930	2.344	0.962	2346	2.630	10	238.7	197.2	10.25	1.928	0.986	2.107	1.540	170.0	1.229
Portugal	(Es)	20.21	3.774	3.323	0.982	0.403	983.1	1.102	4.190	100.	82.64	4.293	0.808	0.413	0.883	0.645	71.24	0.518
Spain	(Pta)	24.46	4.567	4.021	1.189	0.488	1190	1.334	5.070	121.0	100.	5.195	0.978	0.500	1.069	0.781	86.20	0.623
Sweden	(SKr)	47.07	8.791	7.739	2.288	0.938	2290	2.567	9.759	232.9	192.5	10	1.882	0.962	2.057	1.503	165.9	1.199
Switzerland	(SFr)	25.02	4.672	4.113	1.216	0.499	1217	1.364	5.187	123.8	102.3	5.315	1	0.512	1.093	0.799	88.18	0.637
UK	(£)	48.91	9.134	8.041	2.377	0.975	2379	2.667	10.14	242.0	200.0	10.39	1.955	1	2.137	1.562	172.4	1.246
Canada	(C$)	22.89	4.274	3.763	1.112	0.456	1113	1.248	4.745	113.2	93.59	4.862	0.915	0.468	1	0.731	80.67	0.583
US	($)	31.31	5.848	5.148	1.522	0.624	1523	1.707	6.492	154.9	128.0	6.652	1.252	0.640	1.368	1	110.4	0.798
Japan	(Y)	28.37	5.298	4.664	1.379	0.566	1380	1.547	5.882	140.4	116.0	6.027	1.134	0.580	1.240	0.906	100.	0.723
Ecu		39.25	7.331	6.453	1.908	0.783	1909	2.140	8.138	194.2	160.5	8.339	1.569	0.803	1.715	1.254	138.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lire and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6633	0.6608	-0.0023	0.6636	0.6595	28,714	62,814
Mar	0.6645	0.6653	-0.0023	0.6653	0.6645	52	1,233
Jun	-	0.6721	-	-	-	2,000	2,112

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8133	0.8066	-0.0062	0.8135	0.8036	17,255	37,841
Mar	0.8210	0.8147	-0.0061	0.8210	0.8132	134	1,401
Jun	-	0.8230	-0.0060	-	0.8220	1	57

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9155	0.9153	-0.0001	0.9165	0.9130	25,582	71,745
Mar	0.9261	0.9274	-0.0002	0.9274	0.9261	253	1,618
Jun	-	0.9398	-	-	-	5	193

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5610	1.5606	+0.0004	1.5622	1.5566	8,181	40,080
Mar	-	1.5610	+0.0008	1.5610	-	4	77
Jun	-	1.5610	+0.0008	1.5610	-	4	2

UK INTEREST RATES

LONDON MONEY RATES

Sep 26	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 5½	5⅞ - 5⅞	5⅞ - 5¾	6 - 5⅞	6⅛ - 5⅞	6⅛ - 6⅛
Sterling CDs	-	-	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 6⅛
Treasury Bills	-	-	5⅞ - 5⅝	5⅞ - 5⅞	-	-
Bank Bills	-	-	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 6¼	-
Local authority deps.	5⅝ - 5½	5⅞ - 5⅞	5⅞ - 5⅞	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5⅞
Discount Market deps	5⅞ - 5⅞	5¾ - 5⅝				

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5⅛	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Sep 20, 5.5432pc. ECGD fixed rate Stg. Export Finance. Make up day Aug 30, 1996. Agreed rate for period Sep 25, 1996 to Oct 25, 1996, Schemes II & III 7.07pc. Reference rate for period Aug 1, 1996 to Aug 30, 1996, Schemes IV & V 5.825pc. Finance House Base Rate 6pc from Sep 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.02	94.01	-0.02	94.04	94.00	81553	118737
Mar	93.85	93.86	-	93.89	93.85	24173	81140
Jun	93.56	93.59	+0.03	93.62	93.56	15199	73900
Sep	93.21	93.28	+0.06	93.31	93.21	7452	43178
Dec	92.91	92.99	+0.09	93.02	92.91	7910	32721

Also traded on APT. All Open Interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9400	0.11	0.13	0.15	0.10	0.27	0.56
9425	0.02	0.05	0.09	0.26	0.44	0.75
9450	0	0.02	0.05	0.49	0.66	0.96

Est. vol. total, Calls 2684 Puts 3002. Previous day's open int., Calls 109247 Puts 121149

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Cyprus Popular Bank	5.75	NatWestminster	5.75
Allied Trust Bank	5.75	Duncan Lawrie	5.75	●Rea Brothers	5.75
AIB Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
●Henry Ansbacher	5.75	Financial & Gen Bank	7.00	●Singer & Friedlander	5.75
Bank of Baroda	5.75	●Robert Fleming & Co	5.75	●Smith & Williamson Secs	5.75
Banco Bilbao Vizcaya	5.75	Girobank	5.75	Scottish Widows Bank	5.75
Bank of Cyprus	5.75	●Guinness Mahon	5.75	TSB	5.75
Bank of Ireland	5.75	Habib Bank AG Zurich	5.75	United Bank of Kuwait	5.75
Bank of India	5.75	●Hambros Bank	5.75	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	5.75	Western Trust	5.75
Barclays Bank	5.75	●Hill Samuel	5.75	Whiteaway Laidlaw	5.75
Brit Bk of Mid East	5.75	C. Hoare & Co	5.75	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	5.75	Hongkong & Shanghai	5.75		
Citibank NA	5.75	Julian Hodge Bank	5.75		
Clydesdale Bank	5.75	●Leopold Joseph & Sons	5.75		
The Co-operative Bank	5.75	Lloyds Bank	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	*Mount Credit Corp	6.00		

● Members of London Investment Banking Association
* In administration

EMS EUROPEAN CURRENCY UNIT RATES

Sep 26	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.305	+0.238	-0.73	2.05	5
Ireland	0.792214	0.787145	-0.00226	-0.64	1.96	4
Portugal	195.792	195.161	+0.111	-0.32	1.63	2
Netherlands	2.15214	2.15212	+0.0041	-0.00	1.31	0
Belgium	39.3960	39.4962	+0.0503	0.26	1.04	-2
Germany	1.91007	1.91823	+0.00264	0.43	0.87	-4
Austria	13.4383	13.4957	+0.018	0.43	0.87	-3
Denmark	7.28580	7.37317	+0.01231	1.20	0.10	-8
France	6.40608	6.48963	+0.00405	1.30	0.00	-11
NON ERM MEMBERS						
Greece	292.867	302.774	+0.304	3.38	-2.01	-
Italy	2106.15	1915.31	-6.87	-9.06	11.40	-
UK	0.786652	0.806964	-0.005116	2.58	-1.25	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Oct	PUTS Nov	PUTS Dec
1.540	2.10	2.41	2.64	0.03	0.39	0.68
1.550	1.27	1.71	2.04	0.20	0.69	1.03
1.560	0.63	1.14	1.49	0.57	1.12	1.47
1.570	0.24	0.71	1.05	1.18	1.69	2.03
1.580	0.04	0.41	0.71	1.97	2.38	2.63

Previous day's vol., Calls N/A Puts N/A . Prev. day's open int., Calls N/A Puts N/A

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.22	94.25	+0.03	94.26	94.21	177,862	500,465
Mar	94.08	94.13	+0.06	94.14	94.06	135,876	354,934
Jun	93.90	93.95	+0.05	93.97	93.89	65,178	259,059

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.80	94.83	+0.04	94.84	94.80	824	3,955
Mar	94.69	94.69	+0.06	94.69	94.69	59	1,478
Jun	-	94.50	+0.06	94.50	94.42	30	25

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	CALLS Mar	PUTS Oct	PUTS Nov	PUTS Dec	PUTS Mar
9675	0.11	0.18	0.14	0.19	0.01	0.03	0.04	0.16
9700	0.01	0.01	0.03	0.08	0.18	0.16	0.18	0.30
9725	0	0	0	0.03	0.40	0.40	0.40	0.50

Est. vol. total, Calls 26690 Puts 6345. Previous day's open int., Calls 328167 Puts 246194

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9850	0.09	0.16	0.15	0.15	0.29	0.52
9875	0.03	0.07	0.07	0.34	0.45	0.69

Est. vol. total, Calls 36 Puts 25. Previous day's open int., Calls 3845 Puts 1191

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9200	0.31	0.69	0.89	0.17	0.14	0.17
9225	0.17	0.51	0.71	0.28	0.21	0.24
9250	0.08	0.36	0.54	0.44	0.31	0.32

Est. vol. total, Calls 11842 Puts 1230. Previous day's open int., Calls 69483 Puts 36256

Gold miners look for growth

By Kenneth Gooding, Mining Correspondent

The chairmen or chief executives of six of the world's biggest gold companies, between them accounting for about one third of global production, were brought together in London yesterday to paint a picture of an industry on the verge of explosive growth as huge areas of the world opened up for exploration for the first time in decades.

The generally upbeat tone of the conference, organised by RBC Dominion Securities, the brokerage arm of Royal Bank of Canada, was not overshadowed by news that the gold price in London closed at its lowest level since September last year after the International Monetary Fund revealed a majority of members were in favour of selling 5m troy ounces to help some of the world's poorest nations.

In London gold closed at $380.15 an ounce, down $2.50 from Wednesday's close.

Delegates at the conference pointed out that, although the sale would not help sentiment in a market where already there was considerable discontentment about the range-bound gold price, the IMF would ensure that the sale did not cause great disturbance. Some recalled that after the last IMF gold disposal, in the late 1970s, the gold price rallied sharply.

None of the senior gold company executives present – Mr Ron Cambre, chairman of Newmont Gold of the US; Mr Tom Dale, managing director of Gengold of South Africa; Mr Robert Champion de Crespigny, chairman of Normandy Mining of Australia; Mr Sam Jonah, chief executive of Ashanti of Ghana; Mr Peter Munk, chairman of Barrick Gold of Canada; and Mr John Willson, president of Placer Dome, another Canadian group – were expecting to receive much help from the price. All said that pushing down the average cost of production was among their main priorities.

Questioned during a light hearted panel session about where they expected the gold price to be in a year's time, Mr Jonah said "slightly north of where we are today." Mr Dale plumped for $400 an ounce, Mr Willson said $412.50 and Mr Rudolf Agnew, former chairman of Consolidated Gold Fields and present director of Newmont, went for $437.50.

During the more serious discussions, Mr Munk, founder ten years ago of Barrick, now the biggest gold producer outside South Africa, said he could confidently predict that his company would double in size during the next ten years. International mining companies were now being courted by governments of all countries with mineral potential for the capital they could mobilise to create jobs, for the export earnings they could generate and the taxes they would pay.

Groups like Barrick were in a position to pick carefully and would always give preference to those countries with stable political and legal structures. Barrick was operating, for example, in Chile, Indonesia and Peru.

Mr Jonah also made the point that the end of the cold war and the collapse of most centrally planned economies was creating opportunities for mining groups. Ashanti would concentrate its expansion efforts in Africa where its deep African roots gave it an advantage over potential rivals.

In contrast, Mr Cambre said his company had 200 geologists exploring in 29 countries at present.

Mr Willson said the mining industry had never had more opportunities available to it but it might have to adopt a much broader agenda than it was used to to make sure that countries continued to put out the welcome mat. "We need to strengthen our ability to gather and interpret intelligence about social and political trends that may affect our investments or colour opportunities that attract us. We must understand the real needs of the countries we are investing in and structure our activities to respond as fully as possible to those needs."

Mr Dale pointed out that expansion of future gold production would be "where the big bucks are being spent today". This did not include South Africa, at present the biggest producer. But all companies there were working hard to cut costs and improve productivity. It would take time, but South African annual production, which has fallen from the 600 tonnes it achieved for many years, might well stabilise at about 500 tonnes a year.

On the thorny question of hedging, all the executives but Mr Dale were in favour because it guaranteed a company continued cash flow. They admitted, however, that the practice had removed from the market that volatility so enjoyed by some speculators. Mr de Crespigny, whose group has hedged 6.3m ounces at an average of US$560 each, pointed out that Normandy could reap big profits from closing out these positions. But to do so would be speculating.

European millers face wheat quality problems

Top grade supplies are short, writes John Buckley

European Union supplies of high quality bread-wheat are likely to be tight in the year ahead, in spite of a probable record cereal harvest, traders and industry officials warn.

"There is no doubt the EU farmers have done a magnificent job in responding to the past year's shortages of grain in the face of weather upsets," Mr Peter Jones, wheat director with the RHM milling and baking group, said last week. "But there is still a potential shortage of good quality wheat throughout Europe."

The German millers association, ADM, has also complained of a lack of top quality wheat and cost increases of DM40 to DM50 (US$26.50 to $33) a tonne compared with last year. "European millers will import increased supplies of high quality wheat from third countries such as Canada and the USA," an official of the association said.

Some brokers are meanwhile warning of a rise in British imports of breadwheats from France and possibly North America to maintain flour quality, with figures up to 1.2m tonnes being touted on the market. "It would be a great pity to see the UK become more reliant on overseas wheat suppliers," commented Mr Jones. "After all, we now have the grain varieties and the expertise for near self-sufficiency the the bread-wheat sector."

Forecasts for the total EU grain harvest have shot up in the past few weeks. The European Commission's latest estimate tops 200m tonnes – up by well over 20m on last year and including almost 89m tonnes of soft wheat (81m last year).

But a late spring, intermittent cold, dry summer conditions and rain prior to harvest in many member states have all taken a heavy toll on grain quality, lowering the protein content and other milling qualities vital to making flour for bread. Problems have so far been reported in Germany, Spain, parts of France, the UK and Denmark – in fact, most of the EU's traditional leading bread-wheat regions.

While weather had contributed to lower quality around Europe, Mr Jones said, the root of the problem was inadequate planting of the right varieties to achieve sufficient top grade bread-making wheat supplies from domestic sources. But top quality wheats tend to yield less and require a premium price to protect growers' profit margins and encourage their cultivation. "With the autumn planting campaign now upon us, there is a danger that farmers will shift even more acreage into high-yielding, mid/lower quality wheats, leaving millers in a tighter squeeze next year," he warns.

Disposing of this year's cereal surpluses into export markets already poses Europe's farmers with a gigantic challenge, according to brokers and merchants. On the latest crop estimates, the EU could have an extra 16m to 18m tonnes of grain to dispose of in the coming 12 months (even after taking account of much lower intervention stocks). Some analysts are assuming an additional 3m tonnes of grain will go into animal feed, but, with other outlets fairly stable, that would still leave a much larger surplus for either export or intervention.

In the EU itself, farmers in northern member states will not have the windfall opportunities they had last year to ship their feed-wheat surpluses to southern Europe when that area had severe drought and ran short of grain for livestock. Cuts in estimates of Chinese and North African wheat imports meanwhile point to flattening world wheat trade.

US wheat futures markets have moved steadily lower in recent weeks, following upward revisions of EU and North American harvest projections. Even the US – where weather threatened to cut tonnage in some states and quality in others – has now raised its own wheat crop forecast and is expecting a lot more exportable, high grade grain than it dare hope for a month ago. Canada was also under threat from the weather, but it is now harvesting one of its biggest crops in years.

Leading exporters Australia and Argentina are also expecting larger crops and will add to the wheat surplus when their supplies come to market early next year. International grain market traders say low wheat prices are already being set by aggressive exporter bidding for import orders with Argentine breadwheat recently quoted at US$146 a tonne, compared with its peak of $280 last April and recent EU export quotations of $165-$175.

If the world market continues to fall the EU, which has already had to resume grain export subsidies on a small scale, could have to spend much more to keep its export prices competitive. US exporters warn that they are fully prepared to retaliate in kind and the threat of a new tit-for-tat trade contest could push world prices even lower. Over the past year world wheat prices have been so high that export taxes were used to stem the flow of grain out of the EU and keep prices at affordable levels for domestic livestock producers.

World harvest estimates raised

By Richard Mooney

The International Grains Council has increased its forecast for 1996-97 wheat production in response to "confirmation of favourable harvests in the Northern Hemisphere, and excellent prospects in Argentina and Australia".

These factors "could lead to a significant rebuilding of wheat stocks" by the end of that season, the London-based IGC says in its latest monthly Grain Market Report, published yesterday.

It now puts the 1996-97 world wheat harvest at 571m tonnes, up from the 563m it was forecasting a month earlier and the 542m tonnes produced in 1995-96. With the consumption forecast being lifted by only 3m tonnes to 561m the stocks figure at the end of 1996-97 is now projected to reach 104m tonnes, 3m above last month's forecast and 10m more than at the end of 1995-96.

A smaller upward adjustment has been made to the coarse grains forecast, but as the consumption figure has been adjusted downwards the stocks projection is raised quite significantly.

The IGC now sees 1996-97 world coarse grains output at 869m tonnes, up 3m from the end-August estimate. The consumption forecast is cut from 859m tonnes to 856m and the end-1996-97 stocks total is now put at 100m tonnes, a rise of 7m tonnes from the figure in the August report and 13m more than at the end of the 1995-96 season.

For both wheat and coarse grains, however, the council's stocks projections remain well below the levels ruling before widespread production setbacks were suffered earlier in this decade.

English farmers' incomes up again

By Maggie Urry

English farmers' incomes have risen for a third successive year to their highest level ever, according to a survey by Deloitte & Touche. The accountants warned, however, that profits were likely to fall sharply because of lower crop prices and higher costs, and that this could result in lower land values.

The annual survey by Deloitte & Touche's agriculture department covers mainly lowland farmers in England. Other farmers outside the survey, such as hill farmers in Scotland, would have fared less well.

Mr Vincent Hedley Lewis, national partner for Deloitte and Touche Agriculture, said "the average net farm income has increased by 29 per cent to a record £363 a hectare for our clients". The figures cover the 1995 harvest and 1995-96 costs.

The rise reflects higher crop prices and increased area aid payments. Within the survey, the most profitable 25 per cent of farmers made £717 a hectare, a rise of 20 per cent. The least profitable quarter earned £104 a hectare, up from £22.

Deloitte & Touche said that the difference between the most and least profitable farmers was not a matter of farm size, but depended more on their skill as farmers. For instance, the more profitable farmers spent less per hectare on sprays by being more precise in their use.

However, Mr Hedley Lewis warned the average annual income could fall to £105 per hectare. He based the forecast on an assumption of a 15 per cent fall in cereal prices and a 1p a litre drop in milk prices, combined with a 12 per cent increase in variable costs, the largest of which is fertiliser.

On BSE (bovine spongiform encephalopathy) Mr Hedley Lewis said: "Farmers are probably not going to be affected as badly financially as one might think".

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1379.5-80.5	1415-16
Previous	1361.5-62.5	1397-98
High/low	1388	1417/1399
AM Official	1365-66	1402-03
Kerb close		1415-16
Open int.	211,201	
Total daily turnover	55,653	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1225-35	1245-50
Previous	1200-10	1225-30
High/low	1217	1245/1235
AM Official	1214-16	1237-40
Kerb close		1243-48
Open int.	4,597	
Total daily turnover	1,137	

■ LEAD ($ per tonne)

Close	780.5-1.5	784.5-5
Previous	773-74	777.5-78.0
High/low		785/778
AM Official	776-7	780-80.5
Kerb close		781-2
Open int.	37,733	
Total daily turnover	8,486	

■ NICKEL ($ per tonne)

Close	7225-35	7340-50
Previous	7120-30	7235-40
High/low		7370/7250
AM Official	7140-50	7255-60
Kerb close		7335-40
Open int.	40,948	
Total daily turnover	9,884	

■ TIN ($ per tonne)

Close	6040-50	6100-05
Previous	6010-20	6070-75
High/low	6015/6005	6120/6070
AM Official	9010-15	6075-80
Kerb close		6090-95
Open int.	15,863	
Total daily turnover	4,028	

■ ZINC, special high grade ($ per tonne)

Close	998-9	1024-25
Previous	992-93	1018-19
High/low		1025/1017
AM Official	990-90.5	1017-17.5
Kerb close		1021-22
Open int.	74,378	
Total daily turnover	11,190	

■ COPPER, grade A ($ per tonne)

Close	1945-46	1945-46
Previous	1917-19	1924-25
High/low	1946/1926	1949/1908
AM Official	1926-27	1929-30
Kerb close		1944-45
Open int.	177,715	
Total daily turnover	65,531	

■ LME AM Official £/$ rate: 1.5606
LME Closing £/$ rate: 1.5620

Spot: 1.5617 3 mths: 1.5605 6 mths: 1.5600 9 mths: 1.5596

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	93.50	+2.30	94.20	90.60	1,193	1,433
Oct	91.15	+1.00	91.70	90.00	541	2,370
Nov	90.75	+0.85	91.50	89.70	44	1,648
Dec	90.45	+0.75	91.20	89.25	5,401	25,127
Jan	90.15	+0.70	90.00	89.90	4	1,194
Feb	89.80	+0.60	–	–	1	833
Total					7,699	54,800

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	380.70-381.10		
Opening	382.10-382.50		
Morning fix	382.05	245.01	475.27
Afternoon fix	380.45	243.52	475.37
Day's High	382.10-382.50		
Day's Low	380.10-380.50		
Previous close	382.40-382.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.11 6 months 3.59
2 months ....4.05 12 months 3.77
3 months 4.00

Silver Fix	p/troy oz.	US cts equiv.
Spot	312.15	487.25
3 months	316.25	493.35
6 months	320.00	499.05
1 year	328.70	512.20

Gold Coins	$ price	£ equiv.
Krugerrand	386-389	247-249
Maple Leaf	385.60-388.05	
New Sovereign	88-90	55-56

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	380.7	–1.8	–	–	3	1
Oct	380.7	–1.7	381.9	379.7	1,308	4,141
Dec	383.6	–1.7	385.3	382.6	14,754	106K
Feb	385.8	–1.8	387.0	385.0	703	13,619
Apr	387.9	–2.0	388.8	387.4	151	7,886
Jun	390.4	–2.0	391.0	389.7	138	11,505
Total					18,116	189,980

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Oct	387.8	–2.2	390.0	386.5	2,720	8,060
Jan	390.0	–2.1	392.1	388.7	1,797	13,747
Apr	392.8	–2.0	395.0	392.5	614	6,142
Jul	395.8	–2.0	396.5	396.5	4	626
Oct	399.3	–2.0	402.0	402.0	2	25
Total					5,131	28,680

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	119.00	–1.45	120.35	118.50	308	7,558
Mar	120.00	–1.45	120.00	120.00	26	177
Jun	121.05	–1.45	122.50	122.50	1	111
Total					308	7,871

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Sep	483.5	–3.5	486.0	485.0	58	66
Oct	483.6	–3.9	–	–	–	10
Dec	488.5	–3.7	493.0	487.5	0,700	68,705
Jan	491.1	–3.7	–	–	2	26
Mar	496.0	–3.7	498.5	495.0	345	11,086
May	500.9	–3.7	502.0	502.0	15	6,408
Total					9,205	87,762

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	24.30	–0.18	24.62	24.20	49,157	85,281
Dec	23.68	–0.15	23.97	23.65	23,606	65,416
Jan	23.08	–0.09	23.27	23.03	6,942	43,065
Feb	22.55	–0.01	22.64	22.41	2,425	26,605
Mar	22.00	–0.06	22.12	21.90	2,237	17,968
Apr	21.59	–0.05	21.63	21.46	844	13,356
Total					96,038	395,109

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	23.20	–	23.40	23.04	12,718	58,699
Dec	22.82	+0.15	22.83	22.52	6,814	42,689
Jan	22.08	+0.01	22.16	21.88	3,517	21,454
Feb	21.45	–0.01	21.51	21.28	2,877	13,760
Mar	20.87	+0.02	20.90	20.70	2,586	13,374
Apr	20.30	–0.04	20.30	20.24	656	4,370
Total					na	na

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	71.70	–0.07	72.00	71.15	18,169	19,073
Nov	71.00	–0.05	71.80	70.55	18,210	38,364
Dec	70.00	–0.16	70.60	69.80	12,424	30,590
Jan	68.40	–0.06	68.90	68.05	4,743	22,238
Feb	08.00	–0.11	66.50	65.75	2,694	11,447
Mar	63.05	+0.14	63.50	62.00	1,188	5,910
Total					68,747	147,069

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	231.75	+6.75	232.00	227.95	6,176	23,118
Nov	223.00	+6.00	223.50	219.00	4,890	16,164
Dec	218.25	+4.75	915.50	212.00	3,322	16,774
Jan	207.75	+3.75	208.50	205.50	2,284	12,219
Feb	199.75	+3.00	200.50	198.00	847	2,852
Mar	192.00	+2.75	191.25	190.25	405	3,728
Total					20,325	85,948

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	2.155	+0.069	2.165	2.045	13,907	28,615
Dec	2.340	+0.042	2.345	2.270	3,163	20,437
Jan	2.375	+0.034	2.380	2.315	2,003	16,427
Feb	2.300	+0.024	2.310	2.270	2,251	9,814
Mar	2.205	+0.033	2.205	2.175	890	7,464
Apr	2.060	+0.020	2.060	2.039	363	5,121
Total					28,686	130,065

■ UNLEADED GASOLINE
NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	63.30	+0.20	63.85	62.50	14,181	12,235
Nov	62.80	–0.11	63.40	62.25	10,256	21,931
Dec	62.60	–0.03	62.80	62.15	3,114	10,751
Jan	62.05	–0.33	62.50	61.80	361	8,102
Feb	62.00	–0.23	62.40	61.95	743	2,415
Mar	62.60	–0.23	62.50	62.25	287	1,368
Total					29,333	99,591

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	105.10	–1.30	106.05	105.50	151	1,928
Jan	106.75	–1.40	107.75	106.75	37	2,084
Mar	108.50	–1.40	109.50	108.50	78	1,296
May	110.40	–1.35	111.35	110.90	52	840
Jul	112.40	–1.10	112.75	112.40	26	138
Total					344	6,286

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	429.25	–0.25	433.50	427.00	7,065	46,203
Mar	421.00	+0.25	425.50	419.00	2,179	13,539
May	406.25	–1.25	409.00	405.00	201	1,189
Jul	386.50	–2.5	388.75	385.00	767	5,922
Sep	389.00	–4.5	–	–	–	116
Dec	393.50	–2.5	–	–	–	88
Total					10,209	67,965

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	306.00	–6.25	311.75	305.75	26,305	188,217
Mar	312.50	–6.5	318.00	312.00	7,474	64,498
May	318.25	–6.5	324.00	319.00	2,289	26,883
Jul	320.50	–6	326.25	330.25	815	20,037
Sep	305.00	–2.75	307.00	305.00	90	2,567
Dec	296.25	–3	299.00	296.00	688	14,090
Total					37,698	316,486

■ BARLEY LIFFE (£ per tonne)

Nov	103.00	–0.80	103.50	103.00	65	973
Jan	104.50	–0.50	–	–	–	692
Mar	106.00	–0.40	–	–	–	186
May	107.50	–0.40	–	–	–	00
Total					65	1,981

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	790.75	–5	795.00	788.50	34,398	119,651
Jan	796.75	–5.25	801.00	793.00	3,960	30,292
Mar	801.25	–5.25	805.50	797.50	3,888	16,243
May	801.25	–4.75	804.00	798.00	1,584	14,956
Jul	801.25	–5.25	804.75	798.00	1,311	12,635
Aug	793.00	–2.5	795.00	791.00	4	253
Total					45,743	198,577

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Oct	24.56	–0.35	24.91	24.54	4,764	9,838
Dec	24.99	–0.34	25.33	24.95	8,537	46,210
Jan	25.27	–0.32	25.53	25.25	1,445	8,556
Mar	25.63	–0.31	25.91	25.60	1,607	10,167
May	25.94	–0.23	26.03	25.88	243	6,574
Jul	26.20	–0.22	26.40	26.12	79	1,770
Total					16,694	84,440

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Oct	264.5	+1.3	264.7	261.2	9,914	19,313
Dec	258.8	+0.5	258.5	256.3	11,015	43,264
Jan	257.0	+0.6	257.3	254.5	1,583	8,858
Mar	254.0	+0.4	254.5	252.0	1,846	11,419
May	250.5	+0.2	251.0	248.0	444	7,100
Jul	249.9	+0.1	250.0	247.0	79	3,113
Total					25,028	94,685

■ POTATOES LIFFE (£/tonne)

Nov	36.0	+1.0	–	–	–	–
Mar	74.0	–1.0	–	–	–	–
Apr	69.9	+1.9	69.9	69.9	40	1,262
May	77.9	–0.1	–	–	–	17
Jan	86.4	–0.1	–	–	–	–
Total					40	1,279

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Sep	995	–	993	993	1	774
Oct	1133	+11	1135	1110	125	1,882
Nov	1200	+7	1205	1184	57	448
Jan	1235	+5	1240	1225	114	1,086
Apr	1250	+10	1255	1250	19	483
Jul	1105	+10	1105	1105	10	72
Total					326	4,826

	Close	Prev
BFI	994	992

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	964	–2	975	975	15	318
Dec	989	–4	1002	986	2,641	33,231
Mar	1013	–1	1023	1011	1,802	39,998
May	1026	–2	1035	1024	165	21,089
Jul	1040	–1	1049	1040	98	11,192
Sep	1055	+1	1064	1054	90	3,798
Total					4,806	133,047

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1378	–11	1390	1370	8,519	30,876
Mar	1408	–12	1422	1403	1,896	17,258
May	1430	–9	1443	1424	44	8,090
Jul	1447	–10	1447	1447	36	6,109
Sep	1463	–10	1473	1463	25	5,503
Dec	1487	–11	–	–	12	684
Total					10,673	76,986

■ COCOA (ICCO) (SDR's/tonne)

Sep 25	Price	Prev. day
Daily	1033.02	1020.92

■ COFFEE LIFFE ($/tonne)

Sep	1560	–14	1578	1559	180	663
Nov	1506	–18	1526	1508	1,382	14,891
Jan	1448	–18	1468	1448	628	6,684
Mar	1411	–15	1435	1408	261	3,683
May	1393	–15	1415	1398	128	1,265
Jul	1392	–10	1402	1398	4	231
Total					2,596	27,821

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	105.70	–0.75	106.60	105.15	3,661	13,842
Mar	102.50	–0.70	103.15	101.90	370	5,073
May	102.50	–1.00	103.10	102.25	93	2,101
Jul	102.50	–0.90	103.35	102.30	75	751
Sep	102.55	–1.10	103.75	103.75	4	221
Dec	103.00	–1.65	103.50	103.25	2	294
Total					4,403	22,282

■ COFFEE (ICO) (US cents/pound)

Sep 25		Prev. day
Comp. daily	95.83	95.15
15 day average	96.41	90.72

■ WHITE SUGAR LIFFE ($/tonne)

Dec	327.1	–1.6	328.5	327.0	1,618	10,892
Mar	324.4	–1.4	326.5	324.2	1,051	8,721
May	324.8	–1.4	326.5	324.5	118	3,860
Aug	327.1	–0.8	328.0	326.5	56	1,235
Oct	320.2	–0.2	320.0	320.0	11	856
Dec	322.4	–0.5	–	–	5	257
Total					2,859	25,813

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Oct	11.11	–0.10	11.23	11.11	8,626	16,115
Mar	10.83	–0.09	10.95	10.82	18,060	72,546
May	10.80	–0.09	10.90	10.80	4,051	21,596
Jul	10.67	–0.12	10.75	10.66	2,096	14,894
Oct	10.80	–0.12	10.70	10.60	1,279	10,120
Mar	10.54	–0.06	10.60	10.54	3	1,867
Total					34,137	137,357

■ COTTON NYCE (50,000lbs; cents/lbs)

Oct	75.50	–0.50	76.00	75.35	158	871
Dec	76.84	–0.37	77.40	76.40	14,271	31,068
Mar	77.95	–0.45	78.55	77.65	1,587	9,572
May	78.70	–0.45	79.20	78.40	380	6,570
Jul	79.20	–0.45	79.60	79.00	178	4,708
Oct	78.80	–0.32	–	–	2	977
Total					16,701	57,719

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Nov	112.90	+4.80	113.10	108.45	1,631	8,441
Jan	110.79	+3.40	110.90	107.25	213	6,189
Mar	112.15	+3.05	112.90	110.00	104	2,744
May	114.00	+2.90	113.75	113.00	1	665
Jul	116.15	+3.05	–	–	1	213
Sep	117.80	+3.05	–	–	–	224
Total					1,960	19,677

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	73.100	–0.075	73.200	72.825	4,824	27,239
Dec	67.500	–	67.750	67.375	5,289	33,760
Feb	64.775	+0.050	64.850	64.600	1,262	16,319
Apr	66.200	–	66.350	66.050	715	8,213
Jun	64.050	–	64.175	63.925	295	3,764
Aug	63.950	–	64.150	63.925	444	4,086
Total					12,838	93,814

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Oct	57.400	+0.225	58.025	57.375	2,300	7,522
Dec	57.100	–0.050	57.925	57.000	2,850	15,835
Feb	76.425	–0.325	77.150	76.400	389	4,867
Apr	72.875	–0.475	73.450	72.800	100	1,919
Jun	77.350	–0.300	77.675	77.200	103	2,061
Jul	74.400	–0.650	75.200	74.300	66	542
Total					5,838	33,308

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	79.250	+0.750	80.200	78.475	1,324	4,424
Mar	79.150	+0.850	80.100	78.500	129	851
May	80.075	–0.125	81.050	79.850	61	289
Jul	80.450	–0.050	80.800	80.000	13	129
Aug	78.650	+0.100	78.650	–	1	23
Total					1,527	5,719

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Nov	Feb	Nov	Feb
1350	61	90	14	22
1400	31	60	34	40
1450	14	37	65	66
■ COPPER (Grade A) LME	Nov	Feb	Nov	Feb
1850	128	150	32	57
1950	70	96	73	102
2050	33	58	135	162
■ COFFEE LIFFE	Nov	Jan	Nov	Jan
1500	50	66	44	116
1550	29	50	73	152
1600	16	38	110	190
■ COCOA LIFFE	Dec	Mar	Dec	Mar
975	46	70	32	32
1000	34	56	45	43
1025	24	44	60	56
■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
2200	-	-	21	-
2250	-	-	34	-
2300	73	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$20.91-0.97	+0.26
Brent Blend (dated)	$23.35-3.40	+0.365
Brent Blend (Nov)	$23.25-3.30	+0.315
W.T.I.	$24.39-4.41	+0.29
■ OIL PRODUCTS NWEprompt delivery CIF (tonne)		
Premium Gasoline	$212-214	+2
Gas Oil	$237-239	+7
Heavy Fuel Oil	$112-114	
Naphtha	$214-216	
Jet fuel	$268-269	+7
Diesel	$249-251	+7
■ NATURAL GAS (Pence/therm)		
Bacton (Oct)	13.05-3.20	+0.05

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER		
Gold (per troy oz)♣	$380.90	-1.65
Silver (per troy oz)♣	488.50c	-3.00
Platinum (per troy oz.)	$385.25	-3.00
Palladium (per troy oz.)	$117.50	-1.50
Copper	97.0c	+2.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.88r	+0.06
Tin (New York)	280.50	
Cattle (live weight)	93.09p	-4.41*
Sheep (live weight)	112.80p	-2.37*
Pigs (live weight)†	107.10p	-2.85*
Lon. day sugar (raw)	$281.90	+0.20
Lon. day sugar (wte)	$334.00	-1.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	85.50p	-0.75
Rubber (Dec)♥	85.50p	-0.75
Rubber (KL RSS No1)	317.5v	-4.0
Coconut Oil (Phil)§	$745.0z	+2.5
Palm Oil (Malay.)§	$510.0x	
Copra (Phil)§	$470.0z	
Soyabeans (US)	226.0	
Cotton Outlook'A' index	76.00	
Wooltops (64s Super)	420p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Oct. z Sep/Oct ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,397 head of pigs sold.

Wool

There was further softening of prices at Australian greasy wool auctions this week with 98,927 bales on offer. The Eastern market indicator lost 15cts to 574cts/kg against the season opener of 601cts/kg and a peak of 615cts/kg. The Western indicator closed down 5cts at 520cts/kg down from the season opener of 561cts/kg. Significantly, strength was evident in the superfine and coarser categories for which Wool Int has no stockpiles. Pass-in rates were lowest at Newcastle sales. Superfine closed up 405cts at 1297cts/kg. The New Zealand overall indicator was unchanged at 471cts/kg though the Fine segment rose 27cts. British wool at Bradford was fully firm and unchanged.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Sep 26	Sep 25	month ago	year ago
1899.7	1900.4	1944.4	2090.1

■ CRB Futures (Base: 1967=100)

Sep 25	Sep 24	month ago	year ago
247.12	245.31	-	-

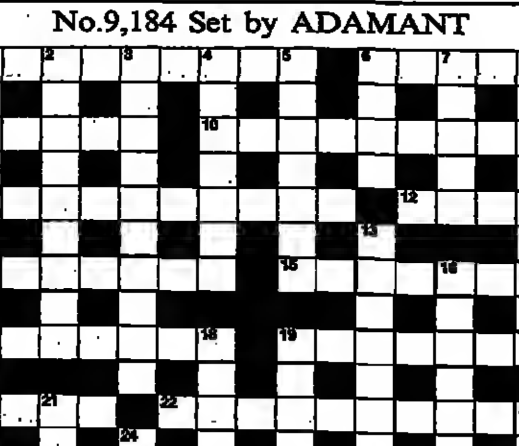
■ GSCI Spot (Base: 1970=100)

Sep 24	Sep 23	month ago	year ago
204.99	203.07	197.60	180.33

JOTTER PAD

CROSSWORD

No.9,184 Set by ADAMANT



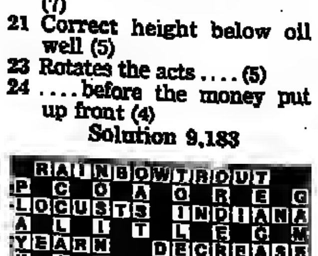
ACROSS

1 Can be aimed at a windbag (9)
6 Prevent a doctor having run-in (5)
9 Understood one was in the business of good manners (5)
10 Locals sue, haloes slip (9)
11 Events occurring on the Sabbath (10)
12 Plain star (4)
14 Continuing to push bishop into helping (7)
15 Permanent rule – bad for revolution (7)
17 Kingpin at mixing cocktail (4,3)
19 Being caught falsifying it on CV is criminal (7)
20 Mean to take part in enormous scam (4)
22 After chaotic demob I intended losing a material presence (10)
25 Arranged grandiose refurbishing (9)
26 One in daily seat (5)
27 A louse, the engineer was explosive (5)
28 Unknown people put Rover into the streets (9)

DOWN

1 Abandon the trench (5)
2 Broadcast tripe once of signal quality (9)
3 Spots crowds of people (10)
4 Flogging British consumer action (7)
5 Came out when English formed a federation (7)
6 Bit of a cat (4)
7 Make certain right away to follow (5)
8 Will try out soldiers at the borders (9)
13 Money I look over, brother (10)
14 Instrument with which to make off peak calls? (9)
16 Around December 1st stop progress on wedding food (9)
18 Fate seems in order (7)
19 Soup is food to the German (7)
21 Correct height below oil well (5)
23 Rotates the acts .... (5)
24 .... before the money put up front (4)

Solution 9,183



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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)
4 Rue Jean Monet, L-2180 Luxembourg 352 424940320

	Selling Price	Buying Price	+or -	Yield Gr's
Latin America Equity	$48.18	48.88	—	-
North America Equity	$77.92	78.21	—	-
Asian Tigers Equity	$80.53	81.14	—	-
Europe Equity	$78.41	79.39	—	-
Germany Equity	DM131.34	132.00	—	-
Japan Equity	$49.58	50.00	—	-
Europe Bond	[illegible]	60.18	—	-
US Bond	[illegible]	58.06	—	-
Global Bond	[illegible]	60.12	—	-
Germany Bond 0	[illegible]	108.01	—	-
Swiss Bond	[illegible]	9788	—	-
Eastern Europe Equity F	[illegible]	180.78	—	-
China Equity F	$34.32	35.00	—	-
Switzerland Equity	[illegible]	120.28	—	-

Abtrust Fund Mngrs Luxembourg SA (u)
4 Boulevard Royal L 2449 Luxembourg 00 352 227001

Abtrust Atlas Fund

	Selling Price	Buying Price	+or -	Yield Gr's
Global Cap Portfolio	$3.724		+0.018	-
United States Portfolio	[illegible]		+0.014	-
Cont'l Europe Portfolio 0	[illegible]		+0.080	-
Japan Portfolio	[illegible]		-0.001	-
Pacific Portfolio	$8.520		+0.018	-
Gold Portfolio	$8.325		+0.025	-
UK Growth of Income	£2.064		+0.009	3.81
Dollar Portfolio	$1.8911		+0.002	7.03
Sterling Portfolio	£1.0980		—	6.30

Fidelity Funds - Contd.

Country Select Funds

	Selling Price	Buying Price	+or -	Yield Gr's
ASEAN	$21.31		+0.11	-
Asian Special Situations	$10.88		+0.06	-
Australia	A$10.00		+0.10	1.34
Emerging Markets	$8.491		—	-
European Smr Cos F	DM13.08		—	-
France	FF84.13		+0.97	-
Germany	DM32.77		+0.18	-
Hong Kong	$45.30		+0.17	0.05
Iberia	Pta1795		+12	-
Indonesia	$10.24		+0.06	-
Italy	L14368		+157	-
Japan Smlr Cos	Y1082		+4	-
Korea F 0	$5.670		+0.151	-
Latin America	$8.540		-0.043	0.53
Malaysia	$34.35		+0.20	-
Nordic	SKr173.3		+0.4	-
Singapore	$24.98		+0.06	-
Switzerland	SFr14.88		+0.10	-
Thailand	$31.97		+0.02	-
United Kingdom	£1.129		+0.001	-

Bond Funds

	Selling Price	Buying Price	+or -	Yield Gr's
European	Ecu10.66		+0.01	8.02
International	$1.040		+0.002	5.98
US Dollar	$8.321		+0.015	6.70
Sterling	£2.251		+0.001	7.20
Yen	Y1.844		-1	2.52

Balanced

	Selling Price	Buying Price	+or -	Yield Gr's
European Balanced	DM12.17		+0.07	1.82

Prices as at September 25

Fleming Group (u)
6 Route De Treves L-2633 Senningerberg Luxembourg
00 352 34101 or 0800 800 284

Mercury Asset Management S.A. - Contd.

	Selling Price	Buying Price	+or -
Global Equity	$97.41	70.87	+0.13
Emerging Markets	$11.83	12.29	-0.02
Gold & Mining	$10.86	11.56	-0.03
Australian & New Zealand	$21.65	25.00	+0.25
Eastern European	[illegible]	40.03	+0.60
European	$39.02	41.00	-0.05
Japan	$21.36	22.80	+0.06
Latin American	$8.41	8.92	-0.03
North American	$42.07	44.30	+0.19
Pacific	$19.03	20.09	+0.05
Singapore & Malaysian	$29.00	30.63	-0.04
United Kingdom	[illegible]	40.53	-0.10
Asian Opps	$26.88	28.33	+0.11
European Opps	$31.28	32.98	-0.15
Global Opps	$11.37	11.98	-0.03
Japan Opps	$18.29	19.27	+0.01
North American Opps	$44.83	47.31	-0.21
United Kingdom Opps	£18.13	19.10	+0.02
DM Reserve	DM112.3	112.28	+0.04
Dollar Reserve	$105.86	108.06	+0.00
Sterling Reserve	£115.78	115.77	+0.07
Swiss Franc Reserve	[illegible]	107.86	+0.06

Mercury Offshore Stlg Tst-SICAV (u)

	Selling Price	Buying Price	+or -
Global	£1.786	1.902	+0.008
Overseas	£1.947	2.063	+0.011
European	£2.380	2.510	—
Japan	£0.955	1.013	+0.001
North American	£2.504	2.640	+0.018
Pacific	£2.317	2.464	+0.016
United Kingdom	£1.925	2.040	+0.007
Reserve	£0.887	0.935	+0.001

Midland Intl Circuit Fund SICAV(u)
Midland Bank Fund Managers (Jersey) Ltd

[illegible]

OFFSHORE INSURANCES

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

هكذا من الأصل

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OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

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BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

ENGINEERING - Cont.

FOOD PRODUCERS - Cont.

ENGINEERING, VEHICLES

GAS DISTRIBUTION

HEALTH CARE

EXTRACTIVE INDUSTRIES

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TELECOMMUNICATIONS - Cont.

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£22½xd	—	£24½	£22½	1,579	3.3	Φ
Barlow	‡†	£8½	—	£10⅞	£5⅝	1,295	2.1	-
Gold Flds Prop R		137xd	—	170	120	14.0	6.2	10.7
NK Props		60	—	96	60	2.41	15.1	-
SASOL	♥	645	—	718	475	3,777	1.7	-
SA Brews		£16½	[illegible]	£20[illegible]	£16[illegible]	4,859	2.1	Φ
Standard Bank		£26[illegible]	+¼	£32[illegible]	£21[illegible]	3,224	1.4	23.2
Tiger Oats	†	780	—	1270	770	1,188	2.0	16.3
Tongaat-Hulett		760xd	—	1247	730	747.8	2.3	Φ

GUIDE TO LONDON SHARE SERVICE

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Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2 1(4)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ⁂ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment.

F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1995. K Yield based on prospectus or other official estimates for 1996. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1995-96. 0 Dividend is paid in whole or part as 4

FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

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LONDON STOCK EXCHANGE

Equities struggle to make fresh progress

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The last of the great privatisations, AEA Technology, made a powerful stock market debut, but not eveo the enthusiasm generated by that story was sufficient to keep the FT-SE 100 index in positive ground yesterday.

The leading index ended a frustrating session marginally lower at 3,933.2, down 2.5 points, and never looked like consolidating Wednesday's strong gains. The latter followed the decision of the US Federal Reserve to hold interest rates steady against widespread predictions of an increase.

Second line stocks were not really challenged, enabling the *FT-SE Mid 250 to edge a net 1.8* ahead at 4,404.9.

Marketmakers became increasingly edgy about London's performance as the day wore on, noting the emergence of more and more institutional sellers, albeit in small size.

"London is looking increasingly tired and reluctant to move higher. Unless there is a big boost to sentiment, I think we're going to move sideways or lower," was the viaw of one *senior trader, who said the 4,000* level on Footsie was beginning to look further and further away.

The head of marketmaking at one big European securities bouse concurred with that opin*ion. "We're being blown one way* and then the other and lacking direction, which is normally a bad omen."

He added that the reluctance of many of the big institutions to deal was linked to tha imminent end of the third quarter, which is bringing the usual tidying up operations by fund managers.

There was also the widespread suspicion, however, that without any positive influences from Wall Street, London needs the impetus *of at least one more* big takeover to get Footsie moving back towards 4,000. "Of all the bid stories that have been driving the market in recent months, we definitely need a bid for a Zeneca, Legal & General or Royal Bank of Scotland, to inject more urgency into the market," the marketmaker said.

Wall Street made early progress yesterday, reacting to a weak durable goods figure and a rise in US jobless claims. The Dow Jones Industrial Average was up more than 20 points an hour after London closed.

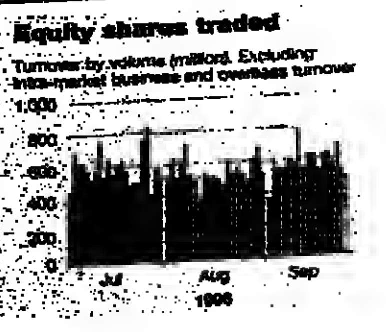
US Treasury bonds built on overnight gains, keeping the yield on the long bond below the crucial 7 per cent level and helping UK gilts end the day with gains of around 12 ticks.

AEA Technology, part of the old Atomic Energy Authority, raced higher, eventually closing at a 15 per cent premium to its 280p flotation price. Turnover in the stock represented around 3 per cent of the market.

Royal Bank of Scotland once again caught the eye, with dealers noting renewed switching out of the other big banking stocks into RBoS, as takeover speculation continued.

Turnover in equities was 638.6m shares, while retail business on Wednesday was £1.6bn.

There were whispers around trading desks of imminent job losses at one big marketmaker.



■ Indices and ratios

FT-SE 100	3933.2	-2.5	FT Ordinary Index	2817.8	+1.2
FT-SE Mid 250	4404.9	+1.8	FT-SE-A Non Fins p/e	18.09	18.08
FT-SE-A 350	1963.0	-0.9	FT-SE 100 Fut Dec	3968.0	+2.0
FT-SE-A All-Share	1939.20	-0.93	10 yr Gilt yield	7.73	7.73
FT-SE-A All-Share yield	3.79	3.79	Long gilt/equity yld ratio	2.12	2.14

■ Best performing sectors

1	Pharmaceuticals	+0.6
2	Oil Exploration	+0.6
3	Telecommunications	+0.4
4	Chemicals	+0.4
5	Distributors	+0.4

■ Worst performing sectors

1	Tobacco	-1.7
2	Gas Distribution	-0.9
3	Retailers: Food	-0.9
4	Leisure & Hotels	-0.9
5	Alcoholic Beverages	-0.8

All the way with AEA

By Peter John and Joel Kibazo

Heavy demand for newly privatised science and tecbnology company AEA Technology brought turnover of 20m, making it ooe of the day's most heavily dealt stocks on its first day of trading.

The shares, priced by tbe government earlier this week at 280p a share, got off to a flying start and had broken through the 300p a sbare barrier within minotes of the first trade.

By mid-morning the stock had riseo to a high of 332p, with some 15m shares having changed hands. Profit-taking thereafter saw the shares ease off their earlier peak and they ended the first day of trading at 323¼p.

Dealers had expected the shares to be priced in the range of 240p-270p a share. However, indications of heavy demand forced the government to float the group at 280p a share.

Guinness flat

International drinks group Gninness gave up early gains as several brokers moved to downgrade full year profit expectations.

There was early buying of tbe stock after Guinness released interim figures at the top end of market expectations. However, that had tailed off hy mid-morning and e detailed look at the breakdown of the figures triggered a wave of selling.

The shares closed 6 lower at 448½p with analysts expressing concerns about the lower than anticipated performance of the spirits division, the biggest contributor to group profits.

Kleinwort Benson's Andrew Holland said: "A major determinant of Guinness's future prospects will be a return to growth in its core spirits market." He trimmed full year profit expectations hy £5m to £956m. The retreat in Guinness cast a shadow over other stocks in the sector. However, switching from Guinness into Allied Domecq helped limit the fall in thet particular stock. The shares closed 3½ off at 450p.

Southern hint

Expectation of an asset shift within the electricity sector led to a amall slide in Southern Electric.

The shares shed 3 to 646½p on the belief that it is poised to pay around £100m for the UK generators formerly owned by NorWeb and being sold by Uoited Utilities.

The prospect of Southern winning the bid emerged after Yorkshira's finance director said his company was contemplating the return of around £120m to shareholders via a buyback or special dividend.

Yorkshire said nothing about a buy-back during an analysts' visit last week. It has been assumed that Yorkshire had earmarked the cash for a bid but had lost out. Yorkshire shares added 12¼ at 753½p on the buy-back story while United eased 3 to 585½p.

A boost for Thames Water, the country's second biggest water utility, reflected a slight shift in political expectations yesterday.

The market has been factoring in a win for the opposition Labour party for some time and utilities have suffered because of expectations of increased regulatory pressures from a Labour government. That view still prevails but, with the popularity of Tony Blair, the opposition leader, coming under pressure, some dealers are beginning to hedge their bets. The shares ended the day 10 higher at 556½p.

More O'Ferrall, the billboard advertising group, fell 18¼ to 650½p, after UBS placed 3 per cent of the company's shares on behalf of various institutions at 651p, a share against an underlying market price of 669p. The sale appeared to be part of a spate of profit-taking sparked off by the announcement of interim figures on Tuesday.

Courtaulds, the chemicals company, was the strongest performer in the FT-SE 100 index yesterday as the stock trampolined off a perceived chart support level. With the added impetus of a stock shortage, the shares moved forward 13¾ to 473½p.

Elsewhere in the sector, Croda International gained 11 to 364½p, with dealers citing an upgrade from SBC Warburg. The broker is believed to have raised its recommendation on the stock from "add" to "buy" and increased its forecast for next year by around 4 per cent. On Wednesday, Warburg hosted a visit for institutional clients to the company's headquarters and one of its plants.

Zeneca, the pharmaceuticals group, slipped 7¼ to 1547p after Bayer, the German chemicals and drugs group, reiterated that it did not intend to launch a takeover bid.

Celltech, the biotechnology company, rose 18¼ to 518½p after being awarded a US patent on engineered human antibodies. The company said the patent, which lasts until 2014, would "substantially extend" the protection of products which it is developing, and should lead to royalties from other companies using Celltech technology.

Huntleigh Technology, the USM-quoted healthcare products group, tumbled 115 to 762½p in the wake of a gloomy interim statement. Broker Beeson Gregory cut its full-year forecast to £13m from £15.3m and rates the shares a "hold".

Standard Chartered fell 16 to 690p, with dealers switching holdings into Royal Bank of Scotland on appreciation of the latter's stark underperformance against the market and the sector this year and the vague prospect of a bid. Standard has historically been considered one of the sector's prime bid candidates but those rumours have faded recently. RBoS rose 9½ to 493½p.

Transport and property group P&O continued to move ahead as both BZW and UBS joined the list of brokers publishing favourable circulars on the group. The shares gained another 8 to 603p in trade of 1.9m. UBS commended the recent joint venture deal with Dutch group Nedlloyd and added: "Further deals of this type - as well as simplification of the divisional structure - will be needed before P&O can catch up from its years of underperformance."

Among retailing stocks, Dixons continued to be out of favour and the shares eased 9 to 523½p. General profit-taking, together with concern about UK interest rates, have combined to drive the stock lower. Selling from a company director earlier this week also weakened sentiment, as did news yesterday that Standard Life Group has decreased its interest to 4.82 per cent.

Great Universal Stores continued to benefit from a recent Hoare Govett recommendation. The shares put on 10½ to 646p.

FINANCIAL TIMES EQUITY INDICES

	Sep 26	Sep 25	Sep 24	Sep 23	Sep 20	Yr ago	*High	*Low
Ordinary Share	2817.8	2816.6	2801.7	2807	2840.6	2598.6	2868.2	2668.8
Ord. div. yield	4.02	4.03	3.99	4.05	4.00	4.14	4.22	3.78
P/E ratio net	17.14	17.11	17.29	17.04	17.25	15.56	17.29	15.80
P/E ratio nil	16.93	16.95	17.13	16.88	17.09	15.38	17.13	15.71

Ordinary Share Index since compilation: high 2868.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2816.0	2821.1	2824.7	2821.7	2816.8	2813.1	2817.5	2814.8	2817.1	2826.2	2812.5

	Sep 26	Sep 25	Sep 24	Sep 23	Sep 20	Yr ago
SEAQ bargains	34,838	34,361	36,343	39,874	40,383	26,146
Equity turnover (£m)†	-	1595.3	1402.4	1457.3	2266.5	2122.4
Equity bargains†	-	32,916	35,965	40,711	41,217	30,776
Shares traded (m)†	-	581.3	472.8	527.3	680.4	726.3

†Excluding intra-market business and overseas turnover.

	Sep 26	Sep 25	Sep 24	Sep 23	Sep 20	Yr ago	*High	*Low
FT-SE AIM	1026.30	1026.20	1032.50	1039.50	1047.80	-	1140.40	965.70

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	563	Total Highs	98	Total contracts	27,857
Total Falls	480	Total Lows	53	Calls	12,842
Same	1601			Puts	15,015

Sep 26 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3978.0	3968.0	-5.0	3979.0	3955.0	8386	58527
Mar	-	3981.0	-4.0	-	-	0	360
Jun	-	3990.5	-5.0	-	-	0	300

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4435.0	-	-	-	0	3571

■ FT-SE 100 INDEX OPTION (LIFFE) (*3933) £10 per full index point

	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P	4000 C	4000 P	4050 C	4050 P	4100 C	4100 P
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 3,815 Puts 6,316

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P	4025 C	4025 P	4075 C	4075 P	4125 C	4125 P
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 3,592 Puts 2,301 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]	F.P.	[illegible]	[illegible]	[illegible]	AEA Technology	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Sep 26	% chg on day	Sep 25	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (39)	1903.98	-0.3	1909.39	1888.81	1.61	-	2329.73	1722.93
■ Regional Indices								
Africa (15)	2590.76	+1.8	2545.95	2769.73	3.10	36.33	3553.56	2272.74
Australasia (6)	2071.47	+2.0	2031.06	2389.12	2.68	20.24	2927.34	2016.43
North America (11)	1734.65	-1.5	1760.28	1716.59	0.76	64.09	2285.39	1488.94

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FT-SE Actuaries Share Indices — The UK Series

	Sep 26	Day's chge%	Sep 25	Sep 24	Sep 23	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3933.2	-0.1	3935.7	3910.5	3919.7	3479.0	3.96	2.04	15.45	145.28	1533.79
FT-SE Mid 250	4404.9	+0.1	4403.1	4363.2	4394.8	3614.8	3.43	1.53	23.78	143.84	1790.00
FT-SE Mid 250 ex Inv Trusts	4437.3	—	4436.7	4422.2	4429.0	3934.3	3.53	1.59	22.72	151.13	1806.80
FT-SE-A 350	1963.0	—	1963.9	1952.8	1958.8	1736.5	3.85	1.95	16.70	70.74	1665.45
FT-SE-A 350 Higher Yield	1879.1	—	1879.9	1869.2	1872.4	1720.9	5.10	1.83	13.37	61.88	1343.22
FT-SE-A 350 Lower Yield	2054.1	—	2055.1	2044.0	2048.2	1761.3	2.70	2.14	21.58	50.15	1434.16
FT-SE SmallCap	2171.86	-0.1	2174.65	2175.42	2180.02	1959.27	3.12	1.59	25.23	53.50	1800.12
FT-SE SmallCap ex Inv Trusts	2166.85	-0.2	2170.78	2172.47	2177.23	1952.37	3.26	1.26	22.63	56.46	1808.22
FT-SE-A ALL-SHARE	1939.20	—	1940.13	1929.88	1934.02	1720.19	3.79	1.92	17.14	69.19	1670.09

■ FT-SE Actuaries All-Share

	Sep 26	Day's chge%	Sep 25	Sep 24	Sep 23	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3754.61	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
12 Extractive Industries(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
15 Oil, Integrated(3)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
16 Oil Exploration & Prod(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
20 GEN INDUSTRIALS(276)	2090.27	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 Building & Construction(33)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Building Matls & Merchs(28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
23 Chemicals(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
24 Diversified Industrials(16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Electronic & Elect Equip(37)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Engineering(71)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Engineering, Vehicles(14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
28 Paper, Pckg & Printing(26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Textiles & Apparel(19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30 CONSUMER GOODS(92)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Alcoholic Beverages(8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
33 Food Producers(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Household Goods(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
36 Health Care(20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
37 Pharmaceuticals(13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
38 Tobacco(1)	3714.48	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 SERVICES(226)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Distributors(31)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Leisure & Hotels(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Media(45)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Retailers, Food(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Retailers, General(46)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Breweries, Pubs & Rest.(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Support Services(40)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 Transport(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
60 UTILITIES(33)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Electricity(14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
64 Gas Distribution(2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Telecommunications(8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Water(11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 NON-FINANCIALS(677)	2041.90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 FINANCIALS(105)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Banks, Retail(9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
72 Banks, Merchant(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
73 Insurance(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
74 Life Assurance(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
77 Other Financial(20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
79 Property(41)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
80 INVESTMENT TRUSTS(127)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
89 FT-SE-A ALL-SHARE(902)	1939.20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A Fledgling	1240.13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A Fledgling ex Inv Trusts	1252.89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3936.4	3938.0	3941.0	3936.1	3932.4	3927.0	3933.1	3928.9	3932.9	3941.8	3926.2
FT-SE Mid 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	1964.2	1964.8	1966.6	1965.4	1962.9	1960.8	1963.0	1961.5	1962.9	1966.7	1960.4

Time of FT-SE 100 Day's High: 9.50 AM Day's Low: 1.19 PM. FT-SE 100 1996 High: 3977.2 (15/08/96) Low: 3632.3 (10/07/96).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pharmaceuticals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks, Retail	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. "The FT-SE Actuaries Share Indices are calculated by FTSE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. © FTSE International Limited 1996. All Rights reserved. The FT-SE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trademarks of the London Stock Exchange and the Financial Times Limited and are used by FTSE International Limited under licence. Auditor: The WM Company.* † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 Index constituent. Source: Extel, part of FT Information.

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 26 / Sch)

BELGIUM/LUXEMBOURG (Sep 26 / Frs.)

CZECH REP (Sep 26 / Korona)

DENMARK (Sep 26 / Kr)

FINLAND (Sep 26 / Mkk)

FRANCE (Sep 26 / Frs.)

GERMANY (Sep 26 / Dm.)

GREECE (Sep 26 / Drachma)

ITALY (Sep 26 / Lira)

NETHERLANDS (Sep 26 / Fls.)

NORWAY (Sep 26 / Kroner)

POLAND (Sep 26 / Zloty)

PORTUGAL (Sep 26 / Escudo)

SPAIN (Sep 26 / Pts.)

SWEDEN (Sep 26 / Kronor)

SWITZERLAND (Sep 26 / Frs.)

TURKEY (Sep 26 / Tk.Lira)

PACIFIC

JAPAN (Sep 26 / Yen)

HONG KONG (Sep 26 / H.K.$)

INDONESIA (Sep 26 / Rupiah)

MALAYSIA (Sep 26 / MYR)

NEW ZEALAND (Sep 26 / NZ $)

SINGAPORE (Sep 26 / S$)

AUSTRALIA (Sep 26 / Aus$)

SOUTH KOREA (Sep 25 / Won)

TAIWAN (Sep 26 / TW $)

THAILAND (Sep 26 / Baht)

AFRICA

SOUTH AFRICA (Sep 26 / Rand)

NORTH AMERICA

CANADA

TORONTO (Sep 26 / Can $)

4 pm close

MONTREAL (Sep 26 / Can $)

4 pm close

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $

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INDICES

	Sep 26	Sep 25	Sep 24	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	18676.74	18713.98	18981.95	20/5	15257.25	22/8
Australia							
All Ordinaries(1/1/80)	2273.4	2252.8	2228.7	2328.00	26/4	2098.10	17/7
All Mining(1/1/80)	940.6	936.2	923.2	1118.40	8/5	923.19	23/9
Austria							
Credit Aktien(30/12/84)	357.35	357.41	353.9	394.98	31/5	349.19	6/9
Traded Index(2/1/91)	1042.97	1040.68	1028.10	1142.51	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1773.58	1764.43	1750.45	1773.88	26/9	1574.90	2/1
Brazil							
Bovespa(29/12/83)	(u)	65139.0	65570.0	69522.00	12/7	43801.80	2/1
Canada							
Metals & Minls(1975)	(u)	5038.56	5047.30	5824.60	8/5	4687.47	16/1
Composite(1975)	(u)	5322.60	5289.70	5322.60	25/9	4730.70	15/1
Portfolio(4/1/83)	(u)	2624.25	2612.46	2624.25	25/9	2327.39	12/1
Chile							
IGPA Gen(31/12/80)	(u)	5446.52	5473.22	5804.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(4/1/83)	430.85	428.46	428.55	431.04	20/9	369.40	2/1
Finland							
HEX General(28/12/90)	2163.51	2147.36	2129.31	2163.51	25/9	1661.67	10/1
France							
SBF 250(31/12/90)	1417.59	1419.41	1408.77	1457.80	6/6	1250.16	2/1
CAC 40(31/12/87)	2104.14	2103.41	2081.50	2146.79	30/4	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	932.52	927.28	921.14	932.52	26/9	818.56	2/1
Commerzbank(1/12/53)	2718.90	2703.50	2686.80	2718.90	26/9	2370.10	2/1
DAX(30/12/87)	2666.55	2658.97	2638.45	2666.55	26/9	2284.86	2/1
Greece							
Athens SE(31/12/80)	974.46	970.77	982.86	1017.96	4/3	872.80	7/8
Hong Kong							
Hang Seng(31/7/64)	11636.13	11603.53	11546.70	11636.13	26/9	10204.87	2/1
India							
BSE Sens.(1979)	3307.05	3343.92	3337.73	4069.28	18/6	2828.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	571.25	572.28	589.76	630.21	24/4	512.46	2/1
Ireland							
ISEQ Overall(4/1/88)	2624.38	2606.55	2583.58	2624.38	26/9	2234.81	2/1
Italy							
Banca Comm Ital(1972)	619.28	609.10	600.15	674.10	20/5	572.21	27/3
MIB General(4/1/95)	1049.0	1032.0	1017.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21461.37	21350.67	21171.99	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	301.56	299.99	297.04	319.70	26/6	284.48	11/3
Topix(4/1/68)	1611.64	1602.37	1589.48	1722.13	26/6	1524.12	13/3
2nd Section(4/1/68)	2093.17	2091.42	2081.63	2251.48	2/7	1882.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1128.81	1129.31	1123.72	1199.54	30/4	983.18	2/1
Mexico							
IPC(Nov 1978)	(u)	3274.50	3293.58	3433.35	27/8	2738.36	8/3
Netherland							
CBS TtlRtnGen(End 83)	661.1	659.9	653.3	661.10	26/9	538.50	2/1
CBS All Shr(End 83)	388.4	387.7	383.8	388.40	26/9	328.70	2/1
New Zealand							
Cap. 40(1/7/86)	2234.26	2244.10	2248.19	2248.19	24/9	2025.14	7/8
Norway							
Oslo SE(Ind)(2/1/83)	1416.46	1412.01	1407.89	1466.71	12/6	1288.88	30/1
Philippines							
Manila Comp(2/1/85)	3222.56	3235.04	3238.48	3374.40	5/7	2578.97	2/1
Portugal							
BVL 30(4/1/93)	1989.68	1992.81	1991.25	2009.78	10/9	1802.81	2/1
Singapore							
SES All-S'pore(2/4/75)	527.01	525.75	524.19	610.27	5/2	522.18	30/7
South Africa							
JSE Gold(28/9/78)	1714.9♥	1751.0	(c)	2030.40	29/5	1346.40	2/1
JSE Indl.(28/9/78)	8193.5♥	8204.0	(c)	8738.20	25/1	7805.80	30/8
South Korea							
KoreaCmpEx(4/1/80)	(c)	783.21	777.01	986.84	7/5	753.35	26/8
Spain							
Madrid SE(30/12/85)	367.78	365.04	361.78	375.25	1/7	323.75	11/1
Sweden							
AffarsvarldenGen(1/2/37)	2084.8	2070.3	2066.6	2084.80	26/9	1708.80	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1762.14	1759.23	1741.22	1811.80	11/7	1518.19	17/1
SBC General(1/4/87)	1249.15	1248.08	1235.41	1284.98	11/7	1114.47	26/1
Taiwan							
Weighted Pr.(30/6/66)	6505.17	6438.52	6477.85	6590.41	29/6	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	1042.80	1034.94	1042.21	1415.04	8/2	982.83	10/9
Turkey							
Istanbul Cmp(Jan 1986)	71533.4	72651.2	70846.7	73531.30	8/7	36779.30	2/1
WORLD							
MS Capital Intl(1/1/70)	785.8*	784.1	780.3	785.80	26/9	725.80	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1718.77	1711.36	1696.30	1718.77	26/9	1504.40	11/1
Euro Top-100(26/6/90)	1458.72	1451.69	1443.45	1458.28	26/4	1333.01	11/1
HSBC JC Drgs(31/12/88)	(u)	380.97	379.37	383.15	16/4	344.19	2/1
ING Barings Emrg(7/1/92)	(u)	181.20	180.88	185.91	4/7	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x index)							
Sep	2107.0	2105.0	-	2113.0	2096.0	20,817	20,824
Oct	2113.0	2110.0	-	2118.5	2104.0	7,729	14,854
DAX							
Sep	2678.0	2683.5	+5.00	2689.0	2675.5	15,070	-
Dec	2695.0	2701.5	+4.00	2708.5	2685.0	70	-
OMX							
Sep	1600.25	1606.00	+10.50	1614.00	1600.00	6,306	92,445
Oct	1609.00	1613.25	+9.75	1620.50	1609.00	5,422	18,162
SOFFEX							
Sep	3736.5	4425.0	+740.0	3737.0	3679.0	500	1,307
Oct	3741.0	3689.0	-39.7	3741.0	3688.0	3,352	9,641

Sep 21 Taiwan Weighted Price 0420.00; Korea Comp Ex 768.37. Base values of all Indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp/Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. ‡‡ IBIS/DAX after-hours index: Sep 26 - 2664.36 +1.86. ♦ Toronto (c) Closed (u) Unavailable

US INDICES

Dow Jones	Sep 25	Sep 24	Sep 23	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5877.36	5874.03	5894.74	5894.74 (23/9)	5032.94 (10/1)	5894.74 (23/9/96)	41.22 (8/7/32)
Home Bonds	101.80	101.89	101.95	105.80 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2071.50	2071.89	2085.59	2296.20 (22/5)	1882.71 (18/1)	2296.20 (22/5/96)	13.23 (8/7/32)
Utilities	218.98	219.40	218.26	234.80 (12/2)	204.85 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 5928.77 (5952.08) Low 5827.42 (5881.60) (Theoretical♣)
Day's high 5895.11 (5929.62) Low 5855.54 (5882.95) (Actual♣)

Standard and Poors	Sep 25	Sep 24	Sep 23	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	686.83	685.61	686.48	687.03 (20/9)	598.48 (10/1)	687.03 (20/9/96)	4.40 (1/6/32)
Industrials♥	812.15	812.02	813.23	814.67 (20/9)	702.07 (15/1)	814.67 (20/9/96)	3.52 (30/6/32)
Financial	71.58	71.40	71.40	71.84 (16/9)	58.67 (10/1)	71.84 (16/9/96)	7.13 (4/9/74)
NYSE Comp.	365.30	364.23	365.51	365.77 (20/9)	321.41 (10/1)	365.77 (20/9/96)	4.64 (28/4/42)
Amex Mkt Val	565.89	563.40	563.52	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1224.56	1215.27	1211.47	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (3/10/74)

RATIOS

	Sep 20	Sep 13	Sep 6	Year ago
Dow Jones Ind. Div. Yield	2.16	2.17	2.24	2.42
	Sep 18	Sep 11	Sep 4	Year ago
S & P Ind. Div. yield	1.98	2.02	2.08	2.05
S & P Ind. P/E ratio	22.41	21.84	21.50	18.14

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
AT & T	10,372,500	61¼	+¼
Micron Tch	10,272,600	32½	+1⅛
Local Spce	5,856,400	15¼	+2¼
Hanson	5,342,800	12⅞	-⅛
Checkpoint	5,327,900	27⅛	-9
Texas Inst	5,245,900	58⅛	+¼
Snyder Com	4,567,100	20⅝	+3⅝
Bay Ntwk	4,513,000	30	+½
LSI Logic	3,684,600	24¼	-½
Apria Hlth	3,023,900	17⅞	-3⅝

TRADING ACTIVITY

● Volume (million)

	Sep 25	Sep 24	Sep 23
New York SE	451.698	457.894	297.767
Amex	18.650	20.396	12.784
NASDAQ	633.804	596.075	375.888
NYSE			
Issues Traded	3,210	3,209	3,190
Rises	1,294	1,209	865
Falls	1,043	1,078	1,428
Unchanged	873	922	897
New Highs	115	113	62
New Lows	38	22	24

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	691.05	691.15	+0.10	693.80	690.30	64,449	176,571
Mar	698.80	697.55	+0.10	698.80	697.55	81	4,022

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Dec	21550.0	21550.0	+180.0	21650.0	21530.0	22,693	197,855
Mar	21590.0	21630.0	+360.0	21650.0	21590.0	531	9,599

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

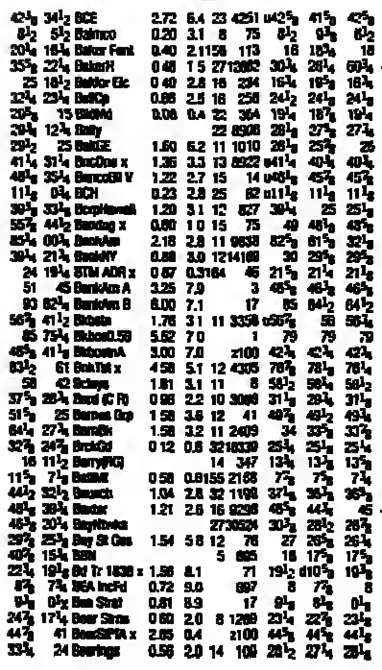
TOKYO - MOST ACTIVE STOCKS: Thursday, September 26, 1996.

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Toshiba Corp	10.8m	764	+23	Oki Elect Ind	6.2m	758	+15
NEC	10.2m	1,300	+10	Minebea	5.9m	1,000	+14
Fujitsu	8.4m	1,060	+30	NKK	4.5m	280	
Sumitomo Seika	7.2m	933	-17	Mitsubishi Hvy	4.5m	897	+19
Hitachi	7.1m	1,070	+10	Nippon Steel	4.4m	346	-2

4 pm close September 26

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23⅞	17⅞	AAR	0.48	2.1	00	1102	23	22⅝	23	+¼
46⅛	36⅛	AMP	1.00	2.6	18	6985	39⅝	38¾	38⅞	-⅛
97½	68	AMR			10	11414	81⅛	79½	79½	-2¼
50½	37⅝	ASA	2.00	5.2	25	482	38⅝	38⅛	38⅝	-⅜
49⅛	38⅛	AbbtL	0.96	2.8	21	6230	u49⅛	48⅞	48⅝	+¼
17¾	12¾	Abitibi Pr	0.46	3.1	9	131	12⅞	12¾	12⅞	+⅛
20⅛	13½	ABM Ind	0.36	2.1	17	134	17¼	19¾	16⅞	
19	13⅞	Acpincalo			39	132	x18	18⅝	18⅞	+⅜
50⅞	37¾	ACE Ltd	0.56	1.1	12	4417	49⅞	47⅞	49¾	+1⅞
10⅛	8¾	ACM Gvt In	0.48	4.8	0	171	10	9⅞	10	
7⅞	6⅝	ACM GvOpp	0.57	8.3		67	6⅞	6⅞	6⅞	
6⅝	6⅝	ACM Man	0.80	9.5		160	9½	9⅛	9½	
13⅞	9½	Acme Elect	0.32	4.4	128	127	7¼	7	7¼	+⅛
17½	13⅞	Acme Mtn			10	24	18⅞	18¾	18⅞	+⅛
33¾	27¾	Acordia	0.72	2.4	17	3	30¾	20½	30½	-⅛
21⅛	12	Acuson			66	926	17¼	16⅞	17¼	+⅛
26	17⅞	Adams Exp	0.48	2.4	1	666	u20	10½	00	+½
21¼	10¾	AdvMic			9	20774	18⅛	15⅛	18⅛	-⅞
11⅛	8½	Advest Grp	0.16	1.6	7	58	9⅞	9¾	9⅞	
26⅛	8¾	Advo Inc	0.10	0.9	556	471	11¼	10⅞	11⅛	+⅛
51½	41⅛	Aegon	1.46	2.9	15	32	49⅝	49⅜	49⅝	-⅜
6¾	3½	Aerflx			3	163	4⅞	4¾	4⅝	
70¾	57⅝	Aetna	0.80	1.2	7	8414	66⅞	67⅞	68¼	+½
37	28¼	Aflac	0.40	1.1	15	762	36⅜	35	36⅛	+⅛
21⅛	17⅛	AGL Res	1.08	5.5	16	515	18¾	18⅞	19¼	+¼
26	21¼	Ahmnsn	0.88	3.3	7	4161	27⅛	26¾	26¾	+¼



Continued on next page

4 pm close September 26

NYSE PRICES

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close

Continued from previous page

33⅛	22¼	SchwMaud	0.60	1.8	15	313	32¾	32½	32⅝	-⅛
20⅛	12	SciAtl	0.06	0.4	203	4951	16⅞	10	18¼	
24	17	Scotman x	0.10	0.4	12	00	22⅞	22¾	22⅞	+¾
47½	38⅛	Scripps	0.52	1.1	28	196	46⅝	45⅞	46⅞	
18⅛	12⅞	ScuddrNAsF	0.02	0.2		353	13¼	13	15⅛	
13½	11	ScudrNEuF	0.16	1.2		288	u13½	13⅛	13½	+⅛
20½	19	SeaCnB	0.17	9.9	29	6	18½	19⅜	19⅝	-⅛
16	15	SeaCn.4625	1.46	9.8		13	15½	15½	15½	+¼
67¾	38⅛	S'gate			27	12600	58⅝	56½	56¾	-⅞
38⅞	30⅞	Seagrm	0.60	1.6	25	7657	37¾	36⅞	37⅝	+1¼
26	17⅞	Seagull En	1.20	6.1	12	3201	19⅝	19⅝	19⅝	+⅛
39	26	Sealed Air	0.64	1.7	25	698	37⅞	37¼	37¼	-⅞
53⅞	28¼	SearsR	0.92	2.1	18	10377	45½	44½	44⅞	-⅝
22⅝	18¼	SecCapSBI	1.24	5.7	19	374	21¾	21½	21⅝	-⅛
13	11⅞	Seligm Sel x	0.84	6.8		138	12⅞	12⅝	12⅞	+¼
23¾	13⅝	Sensormat	0.22	1.3	15	1907	17⅞	17	17⅝	-⅛
46½	29½	SequaA	0.06	1.3	52	178	45¼	44⅞	44⅞	-¼
53⅝	38	SequaB	0.50	0.9	62	41	u53⅝	52¼	53⅝	+1⅝
31¾	19½	ServCp	0.24	0.8	29	3279	30⅛	29⅝	30	+½
24¾	19½	SvMstr	9.38	2.8	15	533	d24¾	24⅛	24⅛	
6⅛	4½	ServMerch			10	10841	5	4⅞	4⅞	
50⅛	28½	SGSThm			19	1758	48⅞	48⅛	48⅞	-⅞
15⅝	10⅝	Shaw Ind	0.30	2.2	34	9733	14½	13⅞	13⅞	-1⅛
13½	10⅛	Shelby Wil	0.32	2.6	14	30	12⅞	12¼	12¼	
94¾	76⅝	ShellTr	3.26	3.5	18	1696	94	93½	93¾	
47⅛	39	SherW	0.70	1.5	18	579	45⅞	45½	45½	-⅛
13⅞	7⅞	Shoneys			10	1050	9⅛	8⅞	9	-⅛
35½	18¾	Showboat	0.10	0.4	53	373	[illegible]	[illegible]	[illegible]	[illegible]
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AMEX PRICES

4 pm close September 26

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NVR			0 407	9⅞	9 5/16	9 5/16	-1/16
Pegasus 9	0.10	100	3266	10⅛	d10	10	-⅛
Penn1	0.60	1	38	9⅛	9	9	+⅛
Pittway A x	0.33	14	258	45¼	45⅝	45¼	+1⅞
PMC x	1.12	12	76	13⅞	13⅝	13⅝	-¼
RaganBrad		27	2100	30¾	d30¾	30¾	
SJW Corp	2.22	9	25	38¾	38⅛	38⅝	-⅞
1st Pmds	0.20	12	33	6⅞	6¾	6⅞	+⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NASDAQ NATIONAL MARKET

4 pm close September 26

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

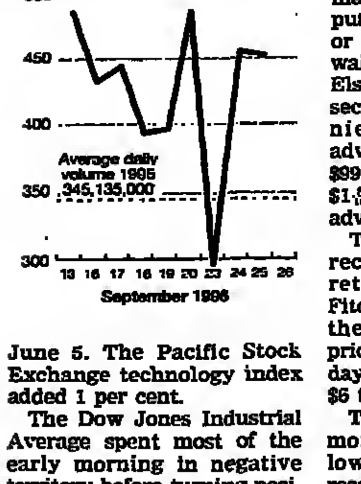
Dow torn by mixed signals on economy

AMERICAS

Activity on the US equity market was volatile as shares were torn between fears that the economy might be slowing quickly and another day of strength in the bond market, *writes Lisa Bransten in New York.*

Technology shares, however, continued to show strength in spite of a profits warning late on Wednesday from Silicon Graphics. Near midday, the Nasdaq composite, which is about 40 per cent technology shares, was 8.80 stronger at 1,224.66. That put the index within 15 points of the record it set on June 5. The Pacific Stock Exchange technology index added 1 per cent.

NYSE volume



The Dow Jones Industrial Average spent most of the early morning in negative territory before turning positive near 11am. By noon, the blue chip index was up 17.38 at 5,894.74. The Standard & Poor's 500 gained 3.58 at 689.41 and the American Stock Exchange composite added 0.51 at 566.40. NYSE volume was 240m shares.

Bonds rallied and shares initially slumped after the Commerce Department reported a sharp drop in durable goods orders in August. Most economists had forecast a modest rise in the figure. The news sent the yield on the benchmark 30-year Treasury to 6.88 per cent, its lowest level since August 22.

That news contributed to the under performance of cyclical shares. The Morgan Stanley index of cyclical shares posted a modest loss while the counterpart index of consumer goods companies added 0.6 per cent.

One factor lifting cyclical shares was news late on Wednesday from Du Pont that it expected third quarter operating income to exceed analysts' estimates by about 10 per cent. Shares in Du Pont added $1¾ at $88½.

Silicon Graphics, which makes sophisticated computer workstations, lost $1½ or 6 per cent at $22½ in the wake of its profits warning. Elsewhere in the technology sector several large companies showed strong advances. Intel added $1¾ at $99, Cisco Systems climbed $1 9/16 at $64¾ and Oracle advanced $7/16 at $43¾.

The market gave a warm reception to shares of retailer Abercrombie & Fitch, which began trade on the NYSE. Shares were priced at $16 late on Wednesday and by midday had risen $6 to $22.

TORONTO ended the morning session modestly lower with declines for resource and forestry stocks offsetting solid progress elsewhere. At noon, the 300 composite index was off 1.32 at 5,321.25.

Most of the index's 14 subgroups moved ahead, notably real estate which was showing a mid-morning gain of 1.8 per cent. But golds came off more than 2 per cent, and the broader mining index was also deep into negative territory.

Caracas at record high

Leading Latin American bourses mostly moved ahead, notably Caracas which by the end of the morning session had climbed to an all-time high for the fifth day running.

According to dealers, international funds continued to buy the bigger market capitalisations in Caracas, and by noon the IBC index was 1.74 per cent ahead. It stood at 5,148.13, up 88.03.

BUENOS AIRES stocks were modestly ahead after a morning spent mostly range-trading. Traders said sentiment was held in check by the start of a 36-hour nationwide strike. The Merval index was up 0.59 at 544.95 by the end of the morning session.

MEXICO CITY provided the main contrast to the general uptick, failing to make headway during a morning session of low volumes. At noon, the IPC general index was 6.33 lower at 3,268.2.

SAO PAULO recovered from Wednesday's modest sell-off. Although there was no real weight of money entering the market, dealers said that the buyers had made a clear return. At noon, the Bovespa index was 121 ahead at 6,5260.

S Africa gold stocks weaken

Shares in Johannesburg moved lower after a noticeable shakeout for gold stocks. The overall index ended off 25.3 at 6,934.5. Industrials were 10.5 down at 8,193.5 and golds, hit by a weaker bullion price and derivatives activity, shed 36.1 at 1,714.9.

There were modest gains for industrial stocks during the morning session but golds came under increasing pressure as the day wore on and by the close overall sentiment had swung on to the downside. Both the rand and bullion price moved lower.

Dealers said turnover was busy, with next week's expiry for gold options creating plenty of interest. Freegold ended R1.50 lower at R45 and Kloof retreated R1.40 to R37.50.

South African Breweries shed R2.50 to R124.75.

Wary Frankfurt climbs to third peak

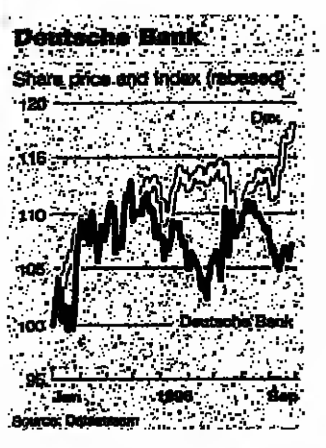
EUROPE

Self doubt pulled **FRANKFURT** back from its best levels but the Dax index, up almost 40 points over the previous two sessions, still closed 1.86 higher at an Ibis indicated 2,664.96.

This represented an all-time best, but it was clearly something of a touch and go performance in spite of another very solid showing for German bonds. Share volumes were lower than in recent sessions.

After the recent strong run, it looked as if uncertainty had crept into sentiment, dealers said. The mixed opening session on Wall Street also kept activity in check.

Banks came under clear pressure following the news that Moody's had put Deutsche Bank, the sector leader, under review for a possible credit downgrade.



Deutsche, hit lately by problems at its UK financial services arm, fell 70 pfg to DM72.13. Dresdner eased 34 pfg to DM40.65 and Commerzbank 30 pfg to DM345.70.

There were plenty of upside features though. Metro bounced DM4 to DM140 as the retailer's interim results were met with a collective sigh of relief.

Mannesmann, which has a 10 per cent stake in Cegetel, the Anglo-French telecom venture, gained DM5.50 to DM576. Schering rose DM2.05 to DM119.15 after Wednesday's promise of a better than expected dividend.

PARIS ended little changed after what dealers described as a very mixed session for leading stocks. The CAC-40 index closed 0.73 higher at 2,104.14.

Generale des Eaux moved ahead sharply on confirmation of the link-up with the UK telecoms giant, BT. The shares jumped more than 3 per cent in heavy volume to close FFr17 better at FFr552.

Alcatel Alsthom was another firm feature, rising Fr10 to FFr411 as investors warmed to the group's sharply lower first half losses and upbeat trading statement. Media stocks generally were in demand with Havas gaining FFr9.30 to FFr341.3 and Canal Plus FFr25 to FFr1,255.

LVMH and Paribas both generated results-led disappointment. The luxury goods group shed FFr63 to FFr1,058 and Paribas retreated FFr9.50 to FFr325.5.

Credit Local de France dipped FFr4.80 to FFr440.4 on stock overhang worries after the government announced plans to sell its remaining 7.5 per cent stake.

AMSTERDAM fell back from midsession peaks as end of quarter factors made for dull volume. The AEX index closed 1.65 higher at 572.26 after touching a best of session 574.25.

KLM continued to attract attention, adding Fl 1.20 to Fl 45.30 for a two-day gain of 4 per cent. Nedlloyd topped the AEX performance charts with a rise of 4.25 per cent to Fl 44.20, up Fl 1.80.

ZURICH took a discount rate cut in its stride, concentrating instead on results and special situations, and the SMI index picked up 1.8 to 3,699.5 having again found a foray above 3,700 points unsustainable.

The Swiss National Bank cut the discount rate by 50 basis points to 1 per cent, matching its record low and weakening the strong franc.

Sulzer fell SFr12 to SFr699 as the engineering group said that its 1996 group net profit was likely to be below the 1995 level.

Insurers were in focus. Zurich Insurance rose SFr7 to SFr344 after the company reported that first half net profit rose 32.7 per cent.

MILAN was pulled back from its highs by news late in the day of lower first half profits at Generali and Credito Italiano. The Comit index was 10.18 higher at 619.28, reflecting strong bonds and a firm lira, while the real time Mibtel index turned back from a high of 9,898 to close up 106 at 9,849.

Generali pulled back from a peak of L31,800 to close L482 ahead at L31,588 while Credito Italiano was L36 weaker at L1,664.

STOCKHOLM featured a 13.4 per cent rise in Hennes & Mauritz after the clothes retailer posted a nine month pretax profit of SKr1.02bn compared with market consensus forecasts of SKr853m. The shares rose SKr91 to SKr768 as the Affärsvärlden general index rose 14.5 to 2,084.8.

WARSAW was mixed although gains in a number of index stocks took the Wig 47.4 higher to 14,454.0.

Agros, the food trader and producer, soared 7.7 zlotys or 9.9 per cent to 83.50 zlotys but analysts were unable to explain the surge.

Kety jumped 18.50 zlotys or 9.8 per cent to 206.50 zlotys on hopes that an Isuzu engine plant might be built in Poland, spurring demand for aluminium.

VIENNA was enlivened by French demand for Wolford, the luxury hosiery and lingerie maker. The shares rose Sch120 to Sch2,790 while the ATX index edged 2.29 higher to 1,042.97.

Written and edited by Michael Morgan and Jeffrey Brown

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Sep 26 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1717.66	1718.93	1718.39	1719.42	1718.78	1719.78	1719.97	1718.77
FT-SE Eurotrack 200	1762.94	1763.68	1763.83	1764.76	1767.11	1768.61	1768.66	1767.69

	Sep 25	Sep 24	Sep 23	Sep 20	Sep 19
FT-SE Eurotrack 100	1711.38	1699.30	1696.50	1703.02	1695.76
FT-SE Eurotrack 200	1760.67	1749.99	1750.10	1755.24	1755.46

Base value 1000 (26/10/90) High/day: 100 - 1720.77; 200 - 1769.27 Low/day: 100 - 1716.35 200 - 1761.25 † Partial.

Speculative demand grips insurers in Helsinki

Sharp gains were recorded among Helsinki's insurance companies as speculation grew that a restructuring of ownership was under way in the sector.

The Hex general index rose 18.15 to 2,163.51, also helped by strong performances in Nokia and Hartwell, the beverages group.

Analysts said that the market was gripped by rumours that Merita, the banking group, might be reducing, or disposing of, its major holdings in two insurers, Pohjola and Sampo.

They added that Skandia, the Swedish insurer, was a rumoured buyer.

Pohjola jumped FM2.50 to FM91.50, off a two-year high of FM94.

Sampo traded FM3 up to a 24-month high at FM322, with demand for both coming from domestic and foreign investors.

Nokia rose FM4.50 to FM203.50 as the high-tech group sought to catch up with gains in its shares on Wall Street overnight.

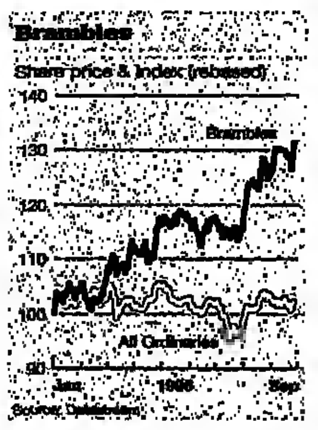
Hartwell surged FM11 or 8.9 per cent to FM134 as it took the market by surprise with an unexpectedly large 230 per cent rise in eight month profits.

Semiconductors keep Nikkei on upward track

ASIA PACIFIC

Active demand for Tokyo's semiconductor-related shares lifted the Nikkei index, which posted gains for the third consecutive trading day, *writes Emiko Terazono.*

The Nikkei 225 average rose 110.70 or 0.5 per cent to 21,461.37, after moving between 21,369.44 and 21,679.56. High technology stocks remained in demand on reports of rising memory chip prices. The dollar's strength also supported sentiment, bolstering buying of export oriented stocks.



The Topix index of all first section stocks rose 9.27 to 1,611.64 and the Nikkei 300 added 1.57 to 301.56, rising above the 300 level for the first time since August 22. Advances led declines by 729 to 331 with 177 issues remaining unchanged.

Volume totalled 362m shares against 272m, thanks to buying by overseas investors and arbitrage-linked activity. Share prices absorbed profit-taking by brokerage dealers and domestic institutions.

In London, the ISE/Nikkei 50 index rose 2.32 to 1,456.88.

Recent reports of rising US prices for 16 megabit dynamic random access memory chips reignited demand for technology stocks. Toshiba, the most active issue of the day, rose Y23 to Y764, Hitachi rose Y10 to Y1,070, and NEC gained Y10 to Y1,300.

The dollar's strength helped car stocks. Toyota Motor rose Y30 to Y2,810, Honda Motor added Y10 to Y2,770 and Mazda Motor gained Y7 to Y534.

In Osaka, the OSE average rose 208.04 to 22,127.48 in volume of 99.5m shares. Nintendo, the video game maker whose shares had been sold recently, gained Y180 to Y7,200. Traders said individual investors had supported the stock ahead of the company's launch of its new 64 bit video game.

SYDNEY moved forward, with the All Ordinaries index advancing 20.6 to 2,273.4.

Dealers said a combination of strong bonds and interest rate relief in the absence of a US rate hike had sparked clear demand for financials. ANZ Bank closed 11 cents better at A$7.15 and National Australia Bank 12 cents at A$13.12.

BHP added 14 cents to A$16.34 and CRA gained 20 cents to A$18.75. Transport leader Brambles, a strong market this year, broke through to a new high of A$20.20, up 50 cents.

New listing Southern Star closed at A$1.77 against a flotation price of A$1.75.

WELLINGTON eased lower in spite of another rally for bonds. The 40-share index ended 9.84 lower at 2,234.26. Brokers said the share market dip looked odd in the context of strong bonds.

They suggested that pre-election nerves had begun to set in. New Zealand goes to the polls on October 12.

HONG KONG saw selective interest in blue chips, which took the Hang Seng index up 32.60 at 11,636.13 as turnover dipped to HK$4.5bn.

Sun Hung Kai Properties rose 50 cents to HK$79.75, ahead of next week's results, while Cheung Kong rose 25 cents to HK$57.00 and Henderson Land picked up 25 at HK$64.50.

Kwoon Chung Bus Holdings succumbed to profit-taking on its second day of trading, ending down 22.5 cents at HK$2.125, after its 55 cent rise over the issue price on Wednesday.

Peregrine Investments rose 30 cents to HK$11.90 after the company reported a 15 per cent rise in interim net profit.

SINGAPORE edged ahead on modest buying programmes in blue chips by funds turning their attention from Malaysia, but second liners turned sharply down.

The Straits Times Industrials index rose 7.29 to 2,172.48 in thin volume of 83.7m shares.

Singapore Press foreign led the gainers, rising 40 cents to S$25.40. Causeway Investment, a Malaysian speculative stock, rose 19 cents to S$1.53. SPK Sentosa, another Malaysian stock, gained 34 cents to S$3.72 on rumours related to the lucrative Bakun project.

KUALA LUMPUR was broadly lower after an active day's trade with Second Board shares the worst hit sector after their recent sharp gains.

The Second Board index sank 24.86 at 600.55 while the blue chip composite index slipped 0.50 at 1,128.81 amid rumours that some brokers were imposing restrictions on trading, including demanding a percentage of cash for share transactions up front.

TRI rose 50 cents to M$6.80 in heavy trading.

TAIPEI gained in light trade as overnight advances for US high-tech stocks triggered active buying of leading electronics. The weighted index rose 69.95 to 6,508.17.

However, dealers said that trading was tempered by caution ahead of the three-day weekend. The market is closed today for the start of the Mid-Autumn Festival.

Mosel jumped T$1.8 to T$37.7. United Microelectronics rose 70 cents to T$36.3 after cutting its profit forecast for this year in line with broker expectations. Acer gained 80 cents to T$42.

BANGKOK ended ahead amid a barrage of political rumour as negotiations on the naming of a new prime minister continued. The SET index ended 7.86 higher at 1,042.80.

Trade was narrow as investors concentrated on blue chips. Political uncertainty has hovered over the market since prime minister Banharn Silpa-archa declared he would resign this weekend.

KARACHI moved lower following an opposition call for a general strike. The 100-share index ended off 1.94 at 1,382.57.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	WEDNESDAY SEPTEMBER 25 1996								TUESDAY SEPTEMBER 24 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	203.48	1.5	192.83	141.86	169.76	171.08	1.3	4.44	200.45	190.73	139.08	157.69	168.89	212.18	179.77	183.91
Austria (24)	178.96	1.1	169.60	124.77	140.51	140.40	0.9	2.00	177.06	168.50	122.87	139.31	139.21	196.04	168.11	179.87
Belgium (27)	218.40	0.8	206.97	152.27	171.47	167.50	0.6	3.98	216.64	206.13	150.31	170.43	166.47	218.69	190.88	193.54
Brazil (28)	183.48	-0.6	173.88	127.92	144.05	344.55	-0.6	1.88	184.66	175.71	128.13	145.27	346.60	189.70	123.97	150.53
Canada (117)	169.95	0.5	161.06	116.49	133.44	168.17	0.4	2.12	169.12	160.92	117.34	133.04	167.49	169.95	134.14	144.66
Denmark (30)	319.79	0.2	303.05	222.95	251.08	252.66	0.1	1.82	319.26	303.79	221.52	251.16	252.22	321.65	276.89	281.34
Finland (23)	212.50	1.4	201.37	148.15	166.84	202.17	1.1	2.47	209.53	199.37	145.38	164.84	199.90	265.67	171.73	265.76
France (93)	197.35	1.1	187.02	137.58	154.94	158.23	1.0	3.07	195.11	185.65	135.38	153.49	156.73	198.39	167.70	172.33
Germany (58)	179.28	1.1	169.90	124.99	140.78	140.76	0.8	1.74	177.42	168.82	123.10	139.57	139.57	179.28	155.66	160.77
Hong Kong (58)	441.48	0.6	418.38	307.80	346.62	438.26	0.6	3.49	438.87	417.59	304.50	345.25	435.68	451.16	354.67	370.56
Indonesia (27)	208.61	0.3	197.98	145.65	164.02	297.14	0.3	1.61	208.30	198.20	144.53	163.87	296.20	–	–	–
Ireland (16)	297.68	1.4	282.10	207.54	233.72	260.77	1.1	3.44	293.47	279.24	203.62	230.87	258.03	297.68	241.27	244.05
Italy (58)	76.25	2.6	72.26	53.16	59.86	86.22	2.1	2.50	74.29	70.68	51.54	58.44	84.44	84.53	67.22	76.11
Japan (481)	146.69	0.5	139.01	102.27	115.17	102.27	0.9	0.75	146.03	138.95	101.32	114.88	101.32	164.68	137.75	143.08
Malaysia (107)	565.28	0.8	535.69	394.10	443.82	544.54	0.8	1.21	561.85	534.61	389.83	442.00	541.25	595.09	426.77	502.21
Mexico (19)	1251.64	-0.3	1186.13	872.63	982.70	10305.98	-0.4	1.30	1255.46	1194.60	871.09	987.66	10347.08	1325.65	791.99	1123.91
Netherland (19)	302.97	1.2	287.11	211.23	237.87	234.15	1.0	3.14	299.22	284.71	207.61	235.39	231.74	304.24	251.81	257.89
New Zealand (15)	87.62	0.0	83.03	61.09	68.79	66.53	-0.1	4.12	87.60	83.36	60.78	68.92	66.61	87.62	75.94	78.36
Norway (35)	255.20	0.4	241.85	177.93	200.37	223.07	0.0	2.29	254.27	241.94	176.42	200.03	223.12	256.94	222.24	235.92
Philippines (22)	205.65	-0.2	194.88	143.37	161.46	268.97	-0.2	0.60	206.03	196.05	142.95	162.09	269.48	–	–	–
Singapore (44)	401.13	0.4	380.14	279.66	314.94	260.36	0.5	1.07	399.54	380.17	277.22	314.32	259.19	465.21	361.94	364.59
South Africa (44)	350.59	0.7	332.25	244.43	275.26	345.79	0.6	2.21	348.34	331.45	241.69	274.03	343.64	437.76	314.20	353.27
Spain (37)	181.28	1.2	171.79	126.38	142.33	174.42	0.8	3.36	179.18	170.49	124.32	140.96	172.80	183.85	145.15	149.91
Sweden (48)	376.00	0.1	356.33	262.14	295.21	367.26	0.3	2.33	375.56	357.35	260.58	295.45	366.29	376.00	294.19	311.76
Switzerland (37)	245.06	1.4	232.23	170.85	192.40	187.40	1.1	1.58	241.80	230.07	167.77	190.22	185.46	254.34	213.95	214.30
Thailand (45)	136.90	-0.6	129.73	95.44	107.48	134.79	-0.8	2.65	137.99	131.30	95.74	108.56	135.93	193.96	128.90	164.15
United Kingdom (200)	248.75	1.0	235.73	173.42	195.30	235.73	0.6	4.05	246.23	234.29	170.84	193.71	234.29	250.30	220.85	222.88
USA (623)	279.57	0.1	264.94	194.91	219.50	279.57	0.1	2.12	279.34	265.80	193.82	219.76	279.34	279.95	236.36	237.91
Americas (787)	255.73	0.1	242.35	178.29	200.76	215.03	0.1	2.11	255.50	243.11	177.29	201.00	214.84	256.00	215.17	217.61
Europe (705)	218.16	1.1	206.75	152.10	171.29	188.95	0.8	3.03	215.77	205.30	149.71	169.74	187.40	218.16	191.44	194.11
Nordic (136)	321.94	0.3	305.10	224.46	252.77	276.11	0.3	2.27	320.92	305.36	222.67	252.46	275.21	322.00	261.13	280.16
Pacific Basin (878)	160.89	0.5	152.47	112.17	126.32	113.96	0.9	1.22	160.07	152.31	111.07	125.93	112.96	177.01	148.86	153.94
Euro-Pacific (1583)	184.62	0.6	174.85	128.71	144.95	142.25	0.8	2.11	183.15	174.27	127.07	144.08	141.05	190.57	166.51	170.58
North America (740)	272.90	0.1	258.61	190.26	214.26	272.19	0.1	2.12	272.62	259.41	189.16	214.47	271.93	273.13	230.17	232.14
Europe Ex. UK (505)	196.73	1.2	186.43	137.16	154.46	161.91	0.9	2.46	194.47	185.04	134.93	152.99	160.39	196.73	170.51	174.28
Pacific Ex. Japan (397)	289.41	0.7	274.26	201.77	227.22	249.57	0.7	2.97	287.30	273.38	199.34	226.02	247.88	296.69	243.59	256.57
World Ex. US (1791)	186.33	0.8	176.58	129.91	146.29	147.17	0.8	2.10	184.91	175.94	128.30	145.48	145.98	191.55	167.36	171.76
World Ex. UK (2214)	212.14	0.4	201.04	147.90	166.56	180.21	0.5	1.91	211.26	201.02	146.58	166.20	179.35	213.05	186.61	189.08
World Ex. Japan (1933)	252.34	0.6	239.14	175.93	198.12	238.22	0.4	2.48	251.14	238.97	174.25	197.57	237.32	252.34	217.26	219.34
The World Index (2414)	215.31	0.5	204.05	150.11	169.05	185.23	0.5	2.11	214.31	203.92	148.69	168.59	184.32	215.31	188.87	192.00

Latest prices were unavailable for this edition.

«Of all the neutrals **Switzerland** *has the greatest right to distinction. She has been the sole international force linking the hideously sundered nations and ourselves. What does it matter whether she has been able to give us the commercial advantages we desire or has given too many to the Germans, to keep herself alive? She has been a* **democratic State,** *standing for freedom in self-defence among her mountains, and in thought, in spite of race, largely* **on our side.»**

Winston S. Churchill
3 Dec 1944

winterthur

UK BUSINESS PARKS

Towns back in focus

New government guidance makes plain that developers should target urban centres and gear any other schemes to public transport requirements, writes David Lawson

Patrick Deigman is keen to hear the latest news. "Tell me what Labour is announcing about relaxing planning rules", he pleads. Normally he would be among the first to know – and to give a reaction about the impact on property. As head of Arlington, Britain's biggest business park developer, he has more at stake than most.

But he was interrupting a short overseas break last weekend as the Labour party's shadow planning spokesman, Keith Vaz, was airing the opposition party's ideas. Such holidays may be difficult to fit in nowadays; potential tenants have been waking up from a long hibernation which had begun to cast doubts on the future of a sector which promised so much when it flowered during the 1980s boom.

Further doubts arose as the government tightened the screws on out-of-town development. New guidance makes plain that developers should target town centres and gear any other schemes to public transport. Labour's hints that it will relax stringent conditions should, therefore, have added to Deigman's holiday relief.

He was already relaxed, however, insisting that developers have anticipated the politicians' fears. Rail and bus connections are as much part of prominent schemes as archetypal glass blocks set in rolling pastures nowadays. Even Stockley Park – a reclaimed rubbish tip near London's Heathrow airport which set the pattern for a generation of office enclaves – is fighting for a station on the neighbouring West Coast railway line.

In any case, big business parks could benefit from any clampdown on new development, say supporters. Politicians are falling into the same trap as in the 1960s, when office and industrial development permits merely increased the value of existing sites, claims Angus McIntosh, head of research at property consultant Richard Ellis. Rising land values will encourage investors to move out of town rather than force them back in.

Nor will some occupiers be confined. "There is simply no room for a Microsoft or Novell to find large buildings in the centre of a town", says Alan Patterson, of Hillier Parker, the chartered surveyors.

These are the kind of companies bringing a sense of excitement back to a market which has been off the boil during the past few years. The former bought more than 30 acres on Argent's Thames Valley Park to build a 280,000 sq ft headquarters last year. Novell is understood to have paid more than £20m for a new headquarters site at Arlington's park in Bracknell, Berkshire.

Other recent big lettings include a move by Rhone-Poulenc, the French chemicals company, to the Rouse scheme at Kings Hill, Kent; 100,000 sq ft at Solent Park let to Zurich Insurance; and 30 acres sold to Securicor, the security, distribution and communications group, at Hatfield, Hertfordshire.

So why are there still long faces when so many tenants seem to be popping out of the woodwork?

The answer lies in the way the market is structured. Almost all these deals have focused on big, high-profile developments. These are the classic image of business parks which captured the imagination in the late 1980s - all fountains, flowerbeds and tinted glass. But a vast underclass of sites scattered around the country is still waiting for businesses to make a move.

"There is a lot of site preparation and selling to owner-occupiers but no speculative development", says Kevin Storey, a partner with Healey & Baker, the international property consultancy.

A few bright spots shine through the gloom. Akeler Developments is heavily committed to expansion on Doxford Park, Tyneside, flushed with the success of letting more than 250m sq ft at rents equivalent to £9 a sq ft. Some credit must go to the attraction of enterprise zone tax allowances, but chief executive Mark Glatman insists this has been icing on the cake.

"Success is no different to the rest of the property market", he says. "It depends on good location and the right specifications. Doxford has attracted a new breed of tenant, like London Electricity, setting up remote customer call centres. They need good local labour supplies and the flexibility of buildings finished only to shell and core.

Angus McIntosh agrees that much of the magic attached to the business park label is an illusion. Take-up is booming west of London, for instance, because that is where demand is traditionally high. "Try putting one north-east of the capital and see the result", he says.

This is why much of the 100m sq ft or so of planning permissions left over from the boom are unlikely to be activated before they run out. Rents are not high enough to justify development around most regional centres, and development finance is almost impossible to find, says Martyn Williams, investment partner with Healey & Baker.

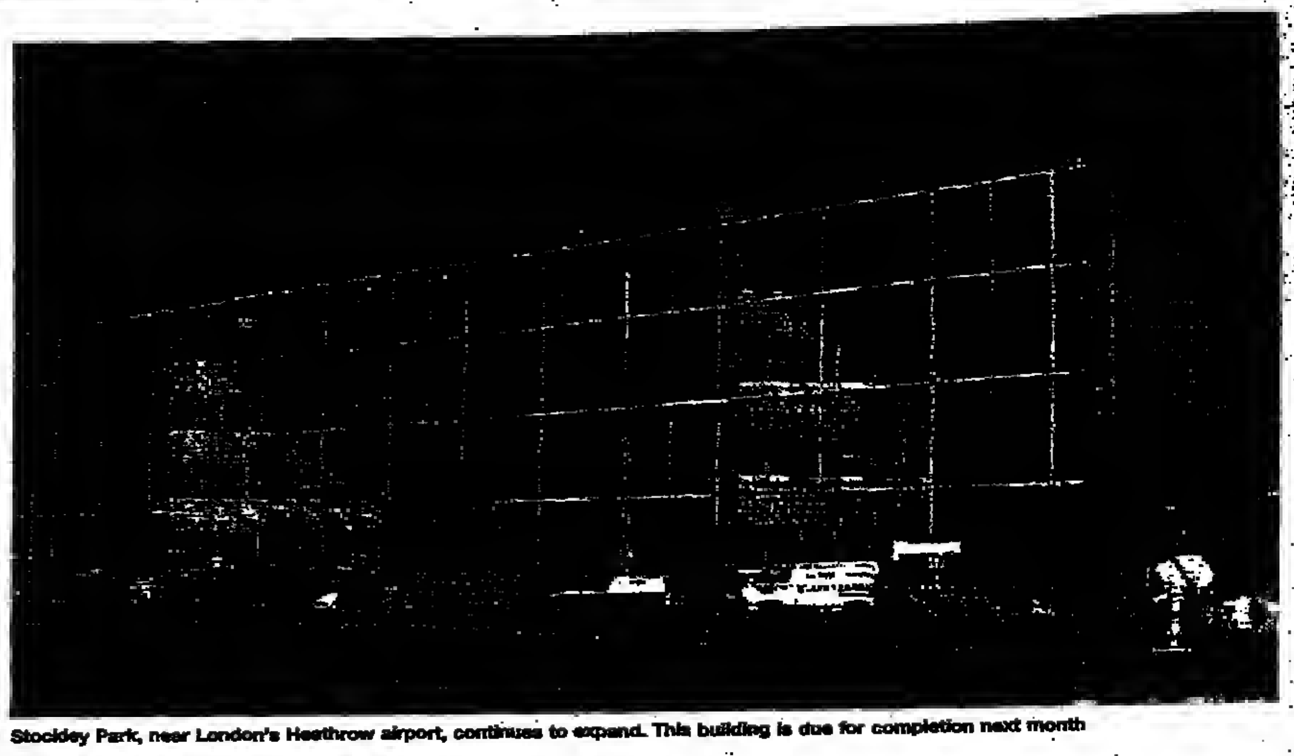
Some schemes will continue as regeneration partnerships with local authorities. St Modwen, for instance, is working on 180 acres close to Derby city centre, while Arlington has linked with Manchester city council to transform 80 acres next to the airport into a business park. Others will languish, lacking the public access demanded by government and the local services required by big occupiers.

Established locations with such attributes will become even stronger, says Deigman. He is confident enough to be pushing forward with speculative development at Birmingham, Oxford and Reading. Argent has also started on 300,000 sq ft at Thames Valley Park, and a two-year hiatus at Stockley Park has been broken with a new phase which will see the first pure office building going up on the landmark site.

Such confidence appears justified on the basis of figures just published by Strutt & Parker and Investment Property Databank, showing that business park rents rose 1.2 per cent last year compared with an equivalent fall by town centre offices. Deigman says the struggle for development finance is easing as banks look for a way back into property to tap this growth and institutions move holdings out of cities.

Nagging doubts remain, however, about what waits over the horizon for these multi-million-pound assets. "No matter what planners decide, private transport will become more and more expensive over the years", says David Hutchings, of Healey & Baker. "Some parks could become isolated."

That does not mean the concept of the business park has to die. Brindleyplace in Birmingham and the GMEX renovation in central Manchester could be pointers to the future, with their public transport links and closeness to people and shopping. In other words, visions of comfortable, accessible and efficient working conditions could be transplanted back into city centres.



Stockley Park, near London's Heathrow airport, continues to expand. This building is due for completion next month

■ **Tenants** • by Anne Steadman

Demands are changing

Choice of location can rest on cost, transport or simply a regional accent

Whatever the current status of the UK debate over the "feel-good" factor, some large multinational companies seem to have made up their minds. Several, mainly US and chiefly in the computer or communications sectors, have taken some strong, stategic decisions about the UK and about Europe – and are poised for growth on a grand scale.

Among recent examples are Microsoft and Oracle, both of which have acquired sites at Argent's Thames Valley Park, and are looking to develop buildings which could eventually total up to 500,000 sq ft and 350,000 sq ft respectively.

Some UK operations are also on the move. For instance, BT with its project Workstyle 2000, is in the market for more space to which it will relocate staff and provide environments which are suitable for modern work practices.

There is a consensus among estate agents that many companies are reinstating or drawing up new medium-term business plans after sitting tight and putting all thoughts of relocation on ice during recessionary years.

Demand for business park space – in fact, all office space – has increased dramatically, according to Ian Worboys, of Strutt & Parker. The firm monitors the number of companies in the market for offices of over 25,000 sq ft on a quarterly basis. According to its figures, potential tenants are currently seeking a total of 4.76m sq ft in the area south of Birmingham. This compares with 2.2m sq ft a year ago.

There is a general shortage of suitable buildings in town centres, and even on the established business parks, to cope with this demand.

Although some new space is being built speculatively, this is the exception rather than the rule. One reason is that funding is a problem. Sources of finance are still cautious in most cases where there is not a pre-let. In addition, having taken the decision to move, many companies are looking for custom-designed space with in-built flexibility.

For instance, says Healey & Baker's Kevin Hawthorn, large companies are likely to build individual blocks of between, say, 50,000 sq ft and 75,000 sq ft which may be linked and moved into or out of as needs change.

Many occupiers would prefer to buy their own sites, adds Chris Hiatt, of Jones Lang Wootton. In recognition of this most leading business park developers offer users a range of options. Arlington, for instance, will sell land or put together design and build packages on either a freehold or leasehold basis.

The pattern of demand has also changed, according to Hiatt. On one hand, he says, there are companies looking for between 20,000 sq ft and 70,000 to 80,000 sq ft which will probably accept existing buildings. But, he adds, there is then a gap with few requirements in the 100,000 sq to 150,000 sq ft range. On the other hand there are numerous companies looking for 200,000 to 400,000 sq ft.

There is a further complication in that many multinationals searching for large corporate headquarters are firmly confining their searches to the area west and south of London, close to the M25 and M4 motorways as well as London's Heathrow and Gatwick airports.

The government is pushing the "Thames Gateway" area to the east of London and spending £76m on improvements to the M2 leading to the Channel Tunnel, but the area, as yet, appears not to figure in most companies' thinking.

Cost is apparently less of a factor than image. On the whole, says David Spaull, of Hillier Parker, the focus of most occupiers has switched from simply saving costs to the improvement of productivity per employee with the provision of efficient space in pleasant surroundings.

But for a whole range of other occupiers, cost is still a very important consideration. Mark Glatman's Akeler is developing Doxford, a business park with Enterprise Zone status near Sunderland in north-east England. Among tenants are Nike, with its UK head

● Continued on next page

UK BUSINESS PARKS

Changes in the demand pattern

● From previous page

quarters, and London Electricity's services centre.

Glatman's marketing bas been unashamedly aggressive. He wooed London Electricity, which at the time, he says, was looking at London Docklands, by spelling out the advantages in terms of cost of a move to Sunderland. He estimates London Electricity is saving between £4m and £5m o year by locating in the north-east rather than the south-east. Expenses incurred in the move – including redundancy payments – should be recouped in around three years, he says.

Grants and other financial incentives also score beavily with aome manufacturing companies, such as Siemens, which is on schedule to complete its £180m building at the Hadrian Business Park in North Shields on November 15.

Customer service centres, along with the growing number of other "call centres" set up by direct financial service operations sucb as banks and insurance companies, along with central reservations offices for airlines, may be sited anywbere in the UK and beyond thanks to improvements in telecommunications in recent years. These centres operate 24 hours a day and need large floor spaces generally unavailable in city centres.

Car parking is a fundamental consideration. Tony Fisher, of Chesterton, says the acceptable car parking ratio at a business park is currently around one space to 180-200 sq ft of floor space, compared with one to 250 sq ft only a couple of years ago.

John Vigar, of Richard Ellis, points out that, despite the desire for improved access to business parks by public transport, round-the-clock working means that many staff have no alternative but to use cars.

Regional accents often play an important part in a company's decision where to locate, particularly those setting up a telephone service centre. Fisher says that studies show that a north-easterner's "Geordie" accent is considered the least "threatening" to callers, whereas a Liverpudlian's "Scouse" accent is the most offputting.

One company to disagree with these findings is QVC, the television shopping channel: it recently opened a 52,000 sq ft "call centra", along with a 125,000 sq ft distribution worebouse at Knowsley Industrial Park just outside Liverpool.

Oxford Science Park sees the provision of good restaurant facilities for a company's workforce as an important factor in attracting new tenants

■ Specialist centres • by Anne Steadman

Community spirit

Some parks specialise, while others offer a wide range of attractions

It seems a long time since the mid-1980s when the term business park was loosely applied to any motley collection of high-tech sheds – buildings often with striking exteriors containing various combinations of research and development, production, and office space.

Different categories of business park have evolved over the years. One of the earliest was the science park which sought to capitalise on physical proximity and academic ties with an adjoining university.

Business parks such as Stockley, close to London's Heathrow airport – still regarded by some as the UK's most successful – have prospered despite changing from its original concept as an R&D centre to becoming almost exclusively an office park.

Still others are being developed into fully integrated communities which include facilities snch as creches, shopping, hotels and restaurants, leisure and even housing, all alongsida a wide range of office, industrial and distribution space.

One of the clearest examples of a science park is a joint venture between the Prudential insurance company and Magdalen College at Oxford. It has shown strong growth, with some 200,000 sq ft of the first phase on 24 acres either built or under construction. Sharp, the Japanese consumer electronics company, was one of the park's early occupants with 32,000 sq ft, now almost doubled to 60,000 sq ft. The park's new Medowar Centre – 32,500 sq ft built in two phases – has been fully commited, including a pre-let to software company Catalina. Rents here are £17.50 a sq ft, "£2 a sq ft more than anyone else is getting", according to the Prudential's Mike Rolls.

One of tha early phases at Oxford was the Innovation Centre, serviced accommodation where nascent companies could take units from as little as 250 sq ft on monthly licences. As a tenant's business grew it could be relocated elsewhere on the park. Oxford Molacular, for instance, was one of the first companies to set up in the Innovation Centre. Last year the company, which is part-owned by the university, made a £30m stock market debut, and it now occupies 11,500 sq ft.

Oxford Science Park specialises in technology and pharmaceutical tenants, and the international repntation of the university means thet it can afford to be selective. There is currently a waiting list for space, says Rolls.

Another specialty park is Cardiff Bay's Celtic Gateway, which is dedicated to multimedia. The 30,000 sq ft first phase is due for completion in the summer of next year. The 30-acre site, which will eventually provide 300,000 sq ft, has bean acquired from the Cardiff Bay Development Corporation by ITG Wales, a consortium including Ashkey Group, Christiani & Neilsen, and TCI Corporation.

Andrew McGregor, of chartered surveyors Chesterton, says Celtic Gateway has already attracted potential pre-lets of up to 20,000 sq ft.

Arlington, the specialist business park developer, has built over 9m sq ft on its parks so far, and there is plenty more to come. Arlington's parks are invariably large – at least 1m sq ft – and contain a mix of uses.

Ian Worboys, of Strutt & Parker, which advises Arlington, suggests that the key factors in the successful mixing of differing types of tenants are both critical mass and careful masterplanning. For instance, no one wants a regular procession of noisy heavy lorries passing the entrance to their smart corporate headquarters. So access roads for, say, industrial users must be segregated from those for office users. Landscaping to create a pleasant environment and to provide screening is also important. Another essential is good on-site management to ensure thet standards are maintained in areas such as security and street cleaning.

Good transport links are also important. Locations close to the M4, M25 and M3 are popular because the motorways provide ease of access to Heathrow and Gatwick airports.

The Prudential is about to embark on the development of a 2.25m sq ft park at Junction 11 of the M4 close to Reading. First phase of the park, set in 200 acres, could be completed by 1998, although pace of development is likely to be dictated by demand. One feature will be nursery units for small, growing companies.

The perceived focus of demand may be to the west of London, but Crossways – east of the capital at Dartford – is billed as the UK's largest. Some 1.25m sq ft has already been built and let on the 35-acre site, and completion is due in five to six years' time.

Facilities at tha site, beside the M25 and close to the Bluewater shopping centre which is scheduled to start trading in 1999, include two hotels already up and running. In addition, a public house is being built, and starts will soon be made on 20,000 sq ft of food and 25,000 sq ft of non-food shopping. Other projects include a day nursery for 50 children, a fast-food restaurant, and a petrol filling station.

Business park developers are responding to government transport policy of encouraging pnblic transport rather than private cars by atudying various options from light railways to dedicated bus lanes on roads.

■ Investment • by David Lawson

Green shoots prosper

A recent surge in lettings and purchases offers reasons for optimism

Property investors are a conservative group. Thot may not seem obvious when massive projects sucb as Canary Wharf and plans for an even bigger London office tower grab beadlines, but these are a aide issue, based on unconventional funding.

The bulk of around £1bn a year invested by institutions in bricks and mortar over the past decade has gone into more mundaoe fare soch as bigh street shops, warehouses and modest city centre office blocks. New ideas have caught on: glossy shopping centres and retail warehousing, for instance, now claim a large part of investment flows. Business parks have trailed, however.

There are signs that this is beginning to change. Net investment reached £33m last year after an £18m boost in development spending, according to the annual index published this week by Strutt & Parker and the Investment Property Databank. Total investment by leading institutions was £773m by the end of 1995 – five times the level in 1986.

That is still only 1.6 per cent of total property holdings: "But it shows growth is continuing", says Andy Martin, a Strutts partner.

The picture is likely to look even better by the end of this year, following a surge in lettings and purchases. Investors have shifted from davelopment to purchases of standing investments as their main route to increased business park weightings, according to the Strutts/IPD Index.

Legal & General, the UK insurer, has just announced a clutcb of deals worth £90m, including the 112,000 sq ft Mercury Communications headquarters on Concord business park, near Manchester airport, Heathrow West business park, near Langley, and five buildings on Birmingham business park. More purchases are understood to be in the pipeline as L&G's fund rebalances its asset mix towards out-of-town property.

This is understandable because city centres are falling out of favour, says Angus McIntosh, research director at property consultant Richard Ellis. "Investors don't know what is going to happen as tenants reduce space demands and people both shopping and people move out. They don't know what is going to happen over changing work practices. In general, they are nervous about offices. If they are going to buy anything in this sector, they will choose to look out of town."

The precise impact on business parks is often the subject of hot debate, however. There is little argument that occupiers and investors are looking out of town; the problem lies in defining whicb developments are most successful. Strutts insists on measuring only those which match criteria such as size (minimum 50 acres), low density development, generous parking and a singla master plan. The aim is to filter out a mass of poorer quality sites which can blur the investment picture. That means performance figures can be less comprehensive than some investors prefer.

Some look instead to the IPD's benchmark index for tha industry which recently created a special section for office parks, chosen on a much wider basis. This shows net investment fell to a mere £23m last year as part of the general shift away from the sector.

Total returns on parks were 3.7 per cent and yields 8 per cent compared with urban office figures of 2.8 per cent and 8 per cent respectively. Capital values fell right across the market, but office parks saw a 4 per cent decline compared with 5 per cent in towns.

But Strutts, which has been closely involved in developing some of the country's elite schemes as adviser to business park specialist Arlington, felt there was an even better story behind thesa figures. And, rather than create an opposing index, it linked up with IPD to give a more comprehensive picture.

This shows that parks meeting the tighter criteria outperformed not only towns but also office parks – and have done so throughout the ups and downs of the last decade. "Business parks have ragistered average returns 3 points a year better than office parks, almost 4 points a year better than standard offices, and more than 2 points a year better even than the IPD all-property average", it says.

Annualised total returns from 1986-95 average 11.6 per cent compared with 8.6 per cent for office parks and 7.8 per cent in towns. This is all the more impressive because it includes a 28 per cent drop in the three years to 1994. A collapse in occupier demand took a heavy toll on rents, which had been soaring after town centres peaked and business parks established themselves.

Even then, headline rents were more robust than city centres, it says, and by last year parks appeared to benefit more from revived demand by rising 1.2 per cent compared with a 1.3 per cent fall in towns.

Yields have not done as well as office parks but have risen at about half the rate of standard offices since 1986. This, more than rents, is the chief reason for outperforming central London. By the end of last year average equivalent yields stood at 7.7 per cent, although individual deals have been done at 7 per cent or less.

This emerging track record is enough to attract more fund managars, although davelopmant finance is still elusive. Prices are even beginning to worry some. "Business parks look a bit expensive nowadays", says Nick Thompson, of Prudential Portfolio Managers. He is not too unbappy, however. The Pru is also a developer, with big plans to launch tha long-awaited Reading business park. Rising values bava alresdy attracted potential partners, who should be announced soon.

THE PROPERTY MARKET

Building big from a small base

Simon London on Helical Bar's strategy

Michael Slade: enthusiasm

Michael Slade, managing director of Helical Bar, has a big personality. In a property market peopled by extroverts, his enthusiasm and self-confidence stand out from the crowd.

Famous in the late 1980s as one of tha UK's most highly paid executives, he turned Helical Bar from a small steel company into one of the UK's most successful property developers.

But while many of his contemporaries ploughed into tha property slump, Mr Slada saw the recession coming. In 1989 Helical Bar pulled back from development and started repaying its debts.

Today, following four years of hibernation, the company is arguably the UK's largest developer, despite its market value of £100m. With 2.2m sq ft of business space in the pipeline, the company has a bigger development programme than Land Securities, the UK's largest property company.

The first fruits of Helical Bar's development programme were evident in this week's interim figures, contributing £3.2m out of pre-tax profits of £4.3m.

Mr Slade estimates that development should produce profits of £5m to £10m a year for five years. For a company the size of Helical Bar, this would be remarkable.

He bristles at the suggestion that Helical Bar might call on shareholders to finance developments through a rights issue.

"The name of the game is concentrate on assets per share, not size for size's sake," he says.

By financing developments in partnership with investment institutions – a technique known as forward funding – the company has managed to keep its capital base relatively small.

Typically, it buys development sites for cash and works up a development plan before selling on to a financial institution. The company receives fees for managing the project and a slica of any development profit.

"We are not going to make as much as if we borrowed money from the bank, but our risks are much lower," says Mr Slade.

Helical Bar's slice of the development profit depends on how quickly it can find tenants. If the finished product stands empty, the company's profit gradually "erodes" to nothing.

The company's first industrial developments of the 1990s are only now attracting tenants and are unlikely to show much of a profit. Mr Slade is also still looking for tenants for large office blocks in Bristol and Cardiff.

But when everything goes to plan it is possible to earn exceptional investment returns from this style of development.

At Weybridge in Surrey, for example, Helical Bar two years ago paid £2m for a site in a joint venture with Averley Wood, a development company run by Mr Stephen Padmore.

Three months later the site was sold to a local authority pension fund under a forward funding agreement. The development has since been built and let, giving the company a total profit of more than £2m.

The main risk in this style of business is that having acquired sites, Helical Bar will not be able to find s funding partner.

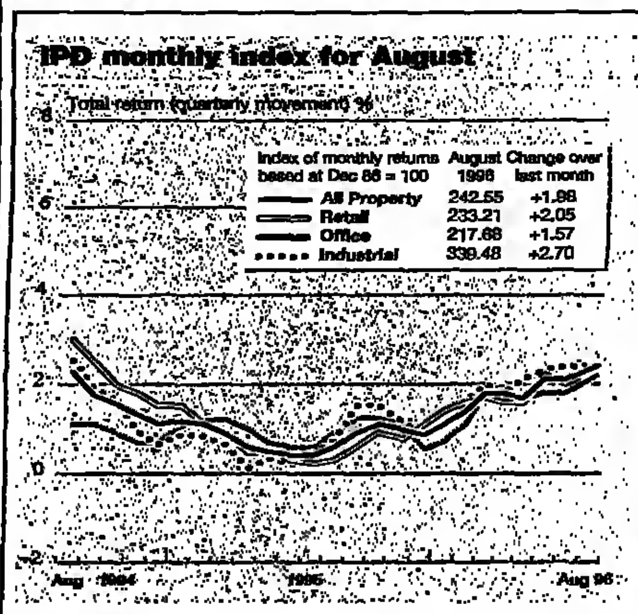
Mr Slade argues that these risks can be controlled by declining to have more than two or three unfunded sites at any time.

"The most we have had at risk during this development cycle was £25m. Today it is closer to £10m," he says.

Tha conundrum for the stock market is working out how to value a company capable of prodncing large and regular development profits.

The shares currently stand at a small premium to net assets per share. The stock market is reluctant to believe that Helical can deliver the profits envisaged by Mr Slade from such a small capital base.

In response, he points out that Helical Bar has produced average trading and development profits of £6m over the past decade.



Commercial rise

Total returns from commercial property strengthened to 0.8 per cent in August with the IPD monthly index reaching 242.55. Capital values increased by 0.1 per cent, led by the retail sector at 0.3 per cent. Rental values also increased by 0.1 per cent for the second consecutive month, with office rental growth reaching 0.2 per cent. Industrial rental values continued to decline.

For the year to August, the all property rate of total return advanced to 6.6 per cent, from 6.2 per cent in July. The rate of decline in capital values fell back from 2.1 per cent to 1.7 per cent. The biggest improvement was in the retail sector, where values declined by 0.9 per cent, after 1.4 per cent in the year to July. All property rental value growth accelerated from 0.7 per cent to 0.9 per cent.

Retail property was the best performing sector in August, giving a total return of 0.9 par cent. Industrial property fell back into second place, returning 0.8 per cent, with offices in third place at 0.7 per cent. On a 12-month view, tha industrial sector has generated a total return of 7.3 per cent.

John Kay

A quest for truth

Textbooks may offer differing opinions, but the profession should pursue a scientific approach to its development

As with other applied professional activities – law or medicine or engineering – management requires natural ability, enhanced by practical experience, which no one can teach.

But there is an obvious difference between business and these other subjects. No one is taken seriously as a lawyer, doctor or engineer if they have not been through an extended course of formal education in the subject. But only e small minority of practising managers have studied management. Many of them barely disguise their contempt for the kind of business training exemplified by an MBA. There is e valid reason for this, but it is not that management is fundamentally different from these snbjects.

It is hardly likely that we can train peopla to be qualified and to be better lawyers, doctors, or engineers, tbat we can teech them French, wood carving or bow to have a more fulfilling sex life, and yet find it impossible to teach them to be better managers.

It is quite wrong to claim that practical skills cannot be taught, or made the subject of systematic research. Of course you need innate ability, and of course you improve witb experience, but it does not follow that your innate abilities cannot be enhanced by training, or that practical experience cannot be modified and accelerated.

How often bave we learnt something by experience, and thought "if only someone had told me that"? However the study of management is rather different from these other subjects. What differentiates them is that in law, in medicine, in engineering and in French – and even in wood carving and sex therapy – there is e broedly agreed body of knowledge which every competent prectitioner must acquire.

Not so in management – or at least it is hard to disentangle that agreed body of knowledge from all the guff.

You will find many textbooks on medicine in the bookshops, just as you will find many texts on management in the bookshops. But the texts on medicine which cover the same subject will all say broadly the same thing. The corresponding management texts will say very different things. Indeed most of them will tell you that what is in all the others is wrong.

Management today has barely emerged from the pre-scientific era in which medicine existed 200 years ago, when it was mostly nonsense. Doctors peddled universal remedies for all ailments, prescribing ebsurd treatments euch as sweating or bloodletting in nearly complete ignorance.

The status of these practitioners depended less on the evidence of their cures than on the confidence of their assertions and the prestige of their patients. There is e striking resemblence between Sir Colenso Ridgeon, Shaw's great physician, who would sbout "stimulate the fagozytes" to great acclaim on every possible occasion, and the modern management guru.

Management has barely emerged from the pre-scientific era in which medicine existed 200 years ago, when it was mostly nonsense

Sometimes the results were harmful, sometimes fortuitously beneficial. But that was mostly a matter of chance. And yet people went on believing in this pre-scientific medicine – indeed some still do. Everyone wants to believe that medicine works, and clings to that faith in spite of contrary evidence. And the evidence is difficult to interpret. Mostly you get better anyway: and when you die it is probably not your doctor'a fault.

This is also true of management theories. However the evolution of modern medicine should give us hope. Although there is still a lot that we do not know about medicine, there is a lot that we do know.

That knowledge came partly from careful observation, such as the studies which established the links between cholara and polluted water or malaria and mosquitoes. Rather more, it came from the development and application of fundamental knowledge in physics, chemistry and biology, which enabled us to understand the transmission and development of disease.

Curiously, one thing that did not help at all was asking very old people for the secret of their long life. It is possible to be very good at something – eteying bealtby, running fast or managing a business, for example – without understanding why you are good at it.

All those who succeed can tell you is what they do, which is not enough to tell you what is really important in what they do, or to enable others less talented to do it.

The skills needed by the pbysiologist and the coach are simply different from those of the runner. "Run like me," says the Olympic medallist, and disappears into the distance. "Do it like me," says Alfred Sloan, "or like me," says Lee Iacocca, "or like me," says Sir John Harvey-Jones. But you cannot just do it like them.

There is often much of interest in business autobiographies, but they are not management textbooks and never will be.

The future of management research and education will be constructed in the same ways.

Some of it will depend on accumulations of empirical evidence, such as Dennis Mueller's systemetic research on the success and failure of mergers and acquisitions, on the work of the Aston group on the relationship between styles of organisation and the nature of production.

Then there is a role for brilliant theorising. There is David Teece's exposition of why innovation so rarely establishes competitive advantage for the innovating company. Or thare is the Modigliani-Miller theorem, the financial equivalent of the second lew of thermodynamics. It ehows that you cannot add valoe through financial engineering – and, like the second law of thermodynamics, it is persistently challenged by naive cranks.

And essential to the analysis is the application of what we know about economics, sociology and psychology, the disciplines which play the same role in relation to management as physics, chemistry and biology do to medicine.

Knowing these things will not make you e good manager, any more than knowing law, chemistry or physics will make you a good lawyer, doctor or engineer. But one day it will be ludicrous to believe that you could be e good or e professional manager if you do not.

John Kay is choirman of London Economics and has just been appointed director of the School of Management Studies at Oxford University

Direct speech

Lucy Kellaway picks up some tips from a top-notch communicator on how to get a message across

Would it be all right to meet Mark McCormack at his Knightsbridge mews house at 6.30am, asked one of his publicity people. The sports marketeer likes to get up at 4.30am to steal e march on the day. No, was the answer, it would not be all right. Thus when I arrived at 9am he had been at work for more than four hours.

I was there to talk about his secondary line of business, his management books. Author of *What They Don't Teach You At Harvard Business School*, McCormack's trademark is common sense. He has now hit on a winning formula with a series of self-help management books. First came *Mark H. McCormack on Managing*, then *Mark H. McCormack on Selling* and *Mark H. McCormack on Negotiating*. Now *Mark H. McCormack on Communicating* has been published. There seems no end to his capacity to write books, nor the public's capacity to buy them.

McCormack: 'If you can't communicate, you can't manage'

McCormack does not pretend to ba a management guru. Instead he feels qualified to tell others how to communicate on the basis of being a top-notch communicator himself. Indeed, he explains in the books how, thanks to his management skills, he has built up International Management Group from scratch to a turnover of more than $1bn.

"If you can't communicate," he says from the depths of a squashy chintz armchair, "you can't manage. You can't sell and you can't negotiete." He looks straight ahead. There is no eye contect. He does not seem interested in what he is saying.

In his latest book McCormack has provided interviewers with a valuable tool: rules for others communicating with him:

- Talk up, not down, to me.
- Surprise me.
- Tempt me.
- Flatter me.
- Tell me what you want.
- Tell ms I'm wrong.

Cleverly combining strategies four and six, I say that while the book is full of excellent tips, I am doubtful whether people can really change their communications habits. He replies at a tangent: "People have a lot of trouble dealing with people verbally. I can say to your 'I was pretty upset at you being four minutes late', but the tone of my voice tells you I am not all that upset."

I am at a loss, not sure whether this is an innocent example or wbether I am ectually being reprimanded. So, obeying rule one, I ask him for advice. Many of us, especially women, find it hard to issue instructions, and end up apologising for asking someone to do something that is their job. How can we do better?

"You need to be very direct about what you want done. If I think my secretary takes too long with the coffee, I'll say: 'You are the best at everything you do, but you do take a long time with the coffee.' I'll make it a joke."

I am not sure whether the rest of us could get away with this.

His secretary pops in to say there is an important call from Australia, and he goes upstairs, from where I can hear him talking in a very loud voice. It goes on for some time and his secretary keeps coming back to apologise, to ask if the tea is all right, and to say that McCormack would like six copies of the resulting interview.

When be comes back I ask again: do you think people can change their communication by reading e book? "Books of this kind yoo should be able to pick up and start reading anywhere. It'e like popcorn. If you can find one or two things to help, then it's worth buying the book."

I am puzzled. In the introduction it says specifically that this book is *not* like popcorn. "It'e meant to be read from start to finish." The confusion is resolved as we talk about the book. It turns out that he didn't actually write it at all.

"I do taping sessions with the person who does these books. He reads relevant material and will come up with five or six story ideas for each chapter." And what is this person's name, I ask, picking up the book to look for it. "Mark Reiter – he'll probably be in there somewhere." I look, but he isn't.

I ask how well he thinks the book, which is very American in tone, translates for a UK audience. "Very well," he replies.

But aren't some of the examples given of excellent communications practices in the book a toucb, well, pushy? "Whicb ones?" he says, looking cross. Does he really like being told he's wrong, I wonder?

I mention the man who was so eager to meet McCormack he made a career of finding his whereebouts, eventually camping out in the foyer of his Los Angeles hotel. This, I say, does not strike me as someone with fire in his belly, but a dashed nuisance.

"Sure, it's pusby. But it gets results. If you are – what's he called? – John Major, you are pretty hard to reach. But if someone has a solution to the European Community, they will need to find a creative way of getting to him."

What other books does be have in mind? He is working on *McCormack on Winning* and *McCormack on Getting Organised*. "But when it gets down to McCormack on plumbing I'll be in tronble." He laughs, and, following the bit in the book that says you must always laugh et your superior's jokes, so do I.

Sensing from his body language that the interview is coming to an end, I ask: how have I done? How does he rate my communication? "Yon have a self-defeating attitude to improving your communication. You should start out with the fact that you can change." I am e bit burt, feeling that be is forgetting his own rule about flattery.

"It's been very nice meeting you", he says and shows me to the door where other journalists are waiting.

Mork H. McCormock on Communicating, Century, 184pp, £9.99

Out of tune in Philadelphia

The musicians' strike will reverberate throughout the world, warns Andrew Clark

The American orchestrai season has opened in a state of extreme nervous tension. Across the country, managements are frightened that a crisis unfolding in Philadelphia could be repeated on their own doorstep.

The Philadelphia Orchestra, ona of the leading US ensembles, has lost its prestigious EMI contract, leaving it without recording work for the first time since 1944. Two weeks ago the musicians went on strike after the management withdrew a guarantee of recording payments, which had been written into the players' contracts. The strike has forced the cancellation of the opening concerts of the season. When the orchestra last had a strike in 1966, it continued for 58 days.

Two other orchestras, in Atlanta and Oregon, have now gone on strike in disputes over pay.

Strikes are not new in US orchestral life, especially in the run-np to each season when orchestra contracts tend to run out. But the latest disputes are more ominous than in the past. They raise all sorts of issues concerning the long-term survival of US orchestras, the power of trade unions in US musical life and the changing face of the classical record industry.

Senior recording executives say US orchestras have become too expensive, and that the current crisis may inject a long-overdue note of realism into the way they price themselves. "American orchestras are living in the past, they're tied to the union mentality of the 1970s," says Peter Alward, senior vice-president of EMI Classics. "If they want to survive, they have to come to terms with what's going on in the world outside. The market is saturated, we're all making fewer records, and we have to make sure those few bring us commercial stability."

EMI is not the only company to reconsider its position in the US. Decca is curtailing its work with the Cleveland Orchestra, and Philips has virtually severed its link with the Boston Symphony. All major labels face the same three problems:

■ new orchestral recordings are not competing well with less expensive CD versions of classic performances from the past, often by the same orchestras on the same labels.

■ budget labels have stolen the major labels' clothes, hy recording the same repertoire to a high technical standard, but with cheaper condnctors and orchestras.

■ musicians' fees, bolstered by inflexible union agreements, have made US orchestras 40 to 50 per cent more expensive to record than their European counterparts.

For most orchestras, recordings are a gauge of self-worth. In the 1960s and 1970s the Philadelphia Orchestra was in the studio almost every week. With CD technology, those recordings can sound as fresh as today's and never wear out. EMI's recent recordings in Philadelphia – latterly three a year, retailing at $16.99 (£11) – are competing not just with golden oldies priced at $7.99, but with thousands of CDs from Naxos and other hudget labels costing $5.99.

The Philadelphia Orchestra's reputation may be higher than ensembles like the Zagreb Philharmonic, which has recorded for Naxos, but as long as the recording is clear and there are no sour notes, it makes little difference to the casual fan.

At present, most US orchestras are tied to rates of pay negotiated with the American Federation of Musicians, the players' union. Union power rose dramatically in the 1960s, in reaction to a history of job insecurity and poor pay. As a result, American musicians are now among the best paid in the world: the minimum salary at Philadelphia is $75,400 (£48,000); for a second-league orchestra like Atlanta, the average salary is $64,248.

Under union-negotiated agreements, musicians are paid three times as much for a recording session as for a rehearsal or concert; the bill for a new recording in Philadelphia runs to $125,000. EMI can record the same repertoire, with the same conductor, for half the price in London. Even the most expensive European orchestras – the Berlin and Vienna Philharmonics – are 25 per cent cheaper.

In isolated cases, record companies have circumvented the problem. At the Pittsburgh Symphony, private funding offsets the cost of EMI's two annual recordings. At the San Francisco Symphony, BMG Conifer capitalised on the homecoming of Californian-born Michael Tilson Thomas last season with a marketing drive which turned his debnt recording there into a money-spinner. Deutsche Grammophon has continued recording the Chicago Symphony and Cleveland orchestras because of Pierre Boulez's close relationship with them: the artistic results are judged to be worth the expense.

The only orchestra to have resigned from the American Federation of Musicians is the Seattle Symphony. "Most musicians are afraid that if they leave the union, they'll revert to the awful conditions of the past, with no leverage over managements," says Dan Webster, music critic of the Philadelphia Inquirer.

The Philadelphia Orchestra has dng itself into a deeper hole than most. It has an accumulated deficit of $2m, its national touring and radio broadcasts have dried up and long-cherished plans for a new concert hall are falling apart. It is also the only one of the "Big Five" US orchestras to have an electronic media guarantee, which promises musicians a minimum $6,000 a year for recordings and broadcasts.

The irony of the conflict is that recordings are not an important revenne-earner for US orchestras, contributing an average of one per cent of turnover. Most managers recognise that even if the terms and conditions for recording were revised, there would be no going back to the boom years. "The shrinking of the classical record industry is a worldwide phenomenon," says Tom Morris, executive director of the Cleveland Orchestra. "It has more to do with technology than recording costs. Without another technological revolution, like stereo, digital or CD, it will no longer be necessary to re-record the repertoire as we've been doing."

Morris argues that the value of recordings lies in the way they boost an orchestra's reputation. "It is important that we keep our place in a competitive environment, and you need new prodncts to maintain thet profile, to let the public know what you're doing. But recordings are not essential. The crux of keeping orchestras healthy is repertoire – doing more contemporary music instead of falling back on the same 40 works, leading taste rather than following it. We find thet when we do that, audiences are larger and younger. That's why I don't accept that orchestral music in America is fighting a losing hattle."

Opera in New York

A far from simple man

The production of Verdi's *Falstaff* that inaugurated the current season at the New York City Opera was borrowed from the Florida Grand Opera, where it had been created for Sherrill Milnes. There, singing the title role for the first time, the 61-year old baritone enjoyed a warm success, so it was only appropriate for him to repeat his interpretation for the New York company, with which he initially made his mark on the American operatic scene. Again, Milnes was praised by the press and welcomed by capacity audiences.

Always a versatile artist, Milnes has excelled, however, in dramatic parts rather than in lyric or, still less, comic works. His sturdy presence and his dark sound could give immediate reality to a truculent Conte di Luna or a snarling Barnaba. So, even for his admirers, his personification of Verdi's fat knight came as something of a surprise: the Milnes presence remains as assertive as ever and the voice, if it has lost some power, retains its characteristic darkness.

But *Falstaff* can be read in many different ways; both the blithe and elegant insouciance of Mariano Stabile and the crepuscular melancholy of Tito Gobbi remain memorable. Like Gobbi, Milnes does not clown; and he truly sings the notes. He always allows the humour to emerge from the music itself and from the text, which he enunciates with superb clarity (though one's impression was that the spectators laughed more at the surtitles' translation than at what they were seeing and hearing). The Milnes version of Sir John is a real and far from simple man.

The producer Fabrizio Melano apparently did not encourage clowning by any of the singers, so Bardolfo (Jonathan Green) and Pistola (Rosendo Flores) made scant impression, though they were vocally more than acceptable. It was good to see Mignon Dunn, a canny veteran, as an authoritative Mistress Quickly. The Ford was Mark Delavan, not an impressive actor, but a solid musical component of the cast. Melanie Helton sang Alice with charm and Patricia Johnson was a sweet and engaging Nanetta. Most important, the ensemble was coherent and effective.

The stage of the Florida Opera must be smaller than that of the State Theater, so the unfussy, versatile Tudor set by Peter Dean Beck had to be framed and placed at some distance from the footlights. This physical separation engendered a musical division as well, and though Guido Ajmone-Marsan conducted the suitably reduced City Opera orchestra with accuracy and intelligence, the balance of sound between pit and stage was often askew, and the singers – especially Miss Johnson and the tenor Bruce Fowler (Fenton) – were seldom sufficiently audible.

For the most part this *Falstaff* was a pleasure to see (thanks also to the good, traditional costumes of Charles Caine). The *ffieris* of the last act, however, was clumsily managed. Still kept at a distance, the principals were sometimes hard to distinguish; the punishment of Falstaff – largely executed by black-sheathed members of the ballet – was a meaningless clutter. There is always the risk, in this scene, of transforming what is meant to be harmless fun into near-sadism. Luckily, the ineptitude of the staging here tempered the cruelty, but it also expunged the wit. But then, Verdi's irrepressible *Allegro brioso* at the end triumphantly restored jollity and saved the day.

William Weaver

Sherrill Milnes as Falstaff: the humour emerges from the music

Theatre in Leeds

Office absurdities

Much of Alan Bennett's work migrates easily between stage and television: the *Talking Heads* monologues and *Single Spies* plays have met with equal success in each medium. This stage presentation of two TV plays from 1978, *Office Suite,* makes the transition with similar ease, for the understated, absurd banalities of Bennett's work shine through in whatever form they may be expressed.

Green Forms is his perspective upon the comedy of killing time, as two dilatory office workers find their cushy number jeopardised by the imminent arrival of the sinister corporate efficiency apparatchik. The mysterious Dorothy Binns, who never appears, is a lineal descendant of *Godot*; the two dogsbodies who pop in occasionally are the equivalent of Pozzo and Lucky; the Beckett parallel extends even to co-protagonist Doris (Paola Dionisotti) having problems with her footwear.

But this remains Bennett's territory, with its departmental feuds over equipment requisitions and casual remarks such as "I suppose, being from the sixth floor, he lifted the seat".

Dionisotti has Doris's character down pat: in contrast to a home life chained, as it were, to her mother's artificial hip, she queens it with quiet assurance over her office colleague Doreen – Susan Wooldridge, a little too animated in her trivial chattering.

Wooldridge is more in control in the second piece, *A Visit from Miss Protheroe*. Her Miss Protheroe is secure behind her severe spectacles and crocheted hat, dolling out tedious office chit chat to the recently retired Mr Dodsworth (Timothy Bateson, a Bennett natural), but saving her rocket until the end: office computerisation has swept away what was to be his *lasting* monument, a logical flow system for processing paperwork. So deftly is Dodsworth transformed form a likeable curmudgeon into a figure of pity that a number of "Aahs" can be heard from the audience.

Both plays gently make the point that "efficiency" must be measured in terms of buman satisfaction rather than by the number-crunching ogres of the Newport Pagnell office. Staged today, they evince a bitter-sweet nostalgia for an age when computers were exotic beasts and trades unions could be amusing instead of *simply risible*, when bureaucracy at least had a human face and human foihles. Jennie Darnell's production lets this conviction permeate through to us at its own pace, not so much wagging a finger as tentatively gesturing with a rich tea hiscuit.

Ian Shuttleworth

At West Yorkshire Playhouse, Leeds, until October *19 (0113 2442111).*

Crucible upset

When the 24-year-old Georgian director David Doiashvili presented *King Lear* on this year's Edinhurgh Fringe, he raised a few eyebrows by cutting the play like an 18th century hack.

Doiashvili has returned to England to direct *The Crucible at the increasingly iconoclastic* West Yorkshire Playhouse. This time, he makes us frown. The play's author lives; but the work is a great mid-century American classic, so why not have a go at *re-fashioning Arthur Miller?*

Doiashvili is not so audacious to cut and slash the text; rather, he risks making it rhetorically ridiculous through over-emphasis.

It is well-documented that Miller found a parallel in the Salem witch trials of 1692 for 1950s McCarthyism, the ritualistic denunciations of communist sympathisers. Yet Miller's play endures as a soulful grappling with moral distinctions. John Proctor (a volatile romantic in Damien Goodwin's performance) is *the* play's tragic hero whose conscience is his true "magistrate". *He knows that it is* his sinful lechery with Abigail Williams (an erotic Tara Woodward) which has unleashed "the little crazy children's" demonising of good-Christian women: Abi*gail accuses his wife to* avenge Proctor's rejection.

This production begins with an interpolated prologue: the girls are dancing in the wood and Abigail flaunts herself in stockings and suspenders. She then features intermittentiy, sometimes stage-managing events, sometimes as the spur to John Proctor's conscience, bnt always an nnsubtle underliner of the sub-text.

The production is so overpitched that in the final act, the actors can only shriek and throw one another to *the floor. With all* their internal conflict externalised, they have no drama with which to wrestle. To cap it all, the schmaltzy pop music, specially composed by Giorgi Dzodzvashvili, *cheapens the emotion of too* many crucial moments.

The production is partially redeemed by the passion of the performers, even though, in their eagerness, they make hig empty gestures. "A *drama cannot* merely describe an emotion; it has to become that emotion", writes Miller in his antohiography, *Timebends.* The apprentice, Doiashvili, must learn from a master, otherwise his promise will perish behind his childish scrawl.

Simon Reade

Until October 5 (0113 2442111).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Orchestra of the Kirov Opera: with conductor Valery Gergiev and violinist Arkadi Gutnikov perform works by Britten and Shostakovich; 8.15pm; Sep 29

■ ANTWERP

CONCERT
De Singel Tel: 32-3-2483800
● Concerto Italiano: with conductor Rinaldo Alessandrini, soprano Rossana Bertini, alto Claudio Cavina, tenor Sandro Naglia and bass Sergio Foresti perform works by Bononcini and Pergolesi; 8pm; Sep 29

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Deutsches Kammerorchester: with conductor Fritz Weisse perform works by Schubert, Chopin and Mendelssohn; 7.30pm; Sep 29
Staatsoper Unter den Linden Tel: 49-30-20354438
● Bo Skovhus: accompanied by pianist Helmut Deutsch. The baritone performs songs by R. Schumann, Brahms, Zemlinksy and Grieg; 8pm; Sep 28

■ BRNO

OPERA
Brno International Music Festival Tel: 425 4323 3116
● La Contessina: by Gassmann. Conducted by Josef Stanek, performed by the Chamber Opera Group ORFEO and the Praga Sinfonietta. Soloists include J. Pastokovà, K. Michaell, T. Badura and I. Pasek; 7.30pm; Sep 26

■ COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Aarhus Symphonieorchester: with conductor Marcus Bosch perform works by Weill and R. Strauss; 8pm; Sep 30

■ COPENHAGEN

CONCERT
VEGA House of Music Tel: 45-33 77 96 33
● Art Projekt '96: Avantgarde Day: the Kronos Quartet and guests Wu Man, Diamanda Galas and David Krakauer perform works by Riley, Dun, Partch, Golyov and Galas; 8pm; Sep 29

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● BBC National Orchestra of Wales: with conductor Mark Wigglesworth and mezzo-soprano Katarina Karneus perform works by Britten, Mahler and Shostakovich; 7.15pm; Sep 30
Royal Festival Hall Tel: 44-171-9604242
● BBC Symphony Orchestra: with conductor Andrew Davis, soprano Eva Urbanova, mezzo-soprano Catherine Wyn-Rogers, tenor Denes Gulyas, baritone Alexander Anissimov and the BBC Symphony Chorus perform works by Matthews and Janácek; 7.30pm; Sep 29
Wigmore Hall Tel: 44-171-9352141
● International Musicians Seminar: featuring violinists Ulrike Anima-Mathé, Catherine Manson and Ida Levin, viola-player Judith Busbridge, cellists Xenia Jankovich and Thomas Carroll, double bass-player Esko Laine and pianist Silke Avenhaus. The programme includes works by Rossini, Dvořák and Brahms; 7.30pm; Sep 30

■ LOS ANGELES

EXHIBITION
MOCA at California Plaza Tel: 1-213-626-6222
● Just Past: The Contemporary in MOCA's Permanent Collection, 1975-96: this exhibition reviews MOCA's holdings of work from the past 20 years, ranging from selected works by artists who have emerged during the 1970s, '80s and '90s to recent works by artists who emerged earlier. The exhibition emphasises recent acquisitions to the collection; from Sep 29 to Jan 19

■ NEW YORK

EXHIBITION
MOMA – Museum of Modern Art, New York Tel: 1-212-708-9400
● Antonin Artaud: exhibition featuring 70 drawings, mostly from the 1940s, by the French literary figure and man of the theatre; from Oct 1 to Jan 27
OPERA
Metropolitan Opera House Tel: 1-212-362-6000
● The Bartered Bride: by Smetana. Conducted by James Levine, performed by the Metropolitan Opera. Soloists include Stratas, Kuebler, Bogachov and Plishka; 8pm; Oct 1

■ PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Members of La Grande Ecurie et la Chambre du Roy: with conductor Jean-Claude Malgoire perform excerpts from Mozart's Le Nozze de Figaro, Cosi fan Tutte and Don Giovanni; 11am; Sep 29

■ ROME

OPERA
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Mazeppa: by Tchaikovksy. Conducted by Valery Gergiev and performed by the Orchestra and Choir of the Kirov Opera. Soloists include Galina Gorchakova, Larisa Djadkova, Nikolaj Putilin and Jury Marusin. Part of the Italy and Russia Festival; 8pm; Sep 30

■ STRASBOURG

OPERA
Théâtre Municipal de Strasbourg – Opéra du Rhin Tel: 33-88 75 48 00
● Tristes Tropiques: by Aperghis. Conducted by Bernhard Kontarsky and performed by the Orchestre Philharmonique de Strasbourg and the Choeurs de l'Opéra du Rhin. Soloists include Rodolfo Mertens, René Schirrer and Jean-Marc Salzmann; 8pm; Sep 29

■ TURIN

EXHIBITION
Galleria Civica d' Arte Moderno Tel: 39-11-5629911
● Campo 6; The Spiral Village: second stage of a project which started last year in Venice with "Campo 95". The exhibition project of Campo 6 hinges on the idea of an ideal village within which 16 young artists from ten different countries attempt to establish a dialogue with museum visitors; from Sep 28 to Nov 3

■ VANCOUVER

EXHIBITION
Vancouver Art Gallery Tel: 1-604-682-4668
● Contemporary British Columbia Art: exhibition of British Columbia art produced since 1994.

The exhibition curators Grant Arnold, Monika Gagnon and Doreen Jensen each have developed a section of the exhibition by developing an individual focus. Each of the three sections includes between eight and 15 artists; from Sep 28 to Jan 12

■ VENICE

OPERA
Gran Teatro la Fenice Tel: 39-41-786511
● Orchestra e Coro del Teatro La Fenice: with conductor Isaac Karabtchevsky perform Togni's Barnabas and Schnebel's Majakowskij – Totentanz. Soloists include Claudia Barinsky, Maria Kowollik, Martyn Hill and Robert Holzer; 9.30pm; Sep 28, 29

■ VIENNA

OPERA
Wiener Volksoper Tel: 43-1-514442960
● Das Land des Lächelns: by Lehár. Conducted by Asher Fisch and performed by the Wiener Volksoper. Soloists include Birgid Steinberger, Peter Jelosits and Johan Botha; 7.30pm; Sep 28

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COMMENT & ANALYSIS

Philip Stephens

Neighbourly tensions

Kenneth Clarke, the chancellor, is fighting not simply for the single currency, but for the future of the Tory party and for Britain's place in Europe

For Kenneth Clarke the question is not whether Britain marches alongside Germany and France in the first batch of nations joining e single currency. The chancellor knows that the prospects of a Conservative government giving up sterling in 1999 are as close as they can get to zero. Mr Clarke is playing for higher stakes. In his mind, the fight is about the future of the Conservative party and, with it, Britain's place in Europe. He may eventually be defeated. But we can be confident he will not surrender.

John Major has now told cabinet colleagues that they must keep their counsel on the issue. Ministerial pronouncements at next month's party conference are to be vetted by the prime minister's office. In a tense telephone conversation on Tuesday, Mr Major reminded Mr Clarke that he should not stray beyond the remit agreed by the cabinet in April of this year.

The government's position is as it is: it will decide only after the next election whether or not to exercise the option negotiated in the Maastricht treaty. In the event it recommended sterling's replacement by the euro, it would let the nation decide in e referendum.

The latest outbreak of hostilities between Mr Clarke and his party's Eurosceptic tendency, though, has reminded us that any truce on the issue can only be temporary. And the tension between Downing Street neighbours is palpable and serious. The prime minister is furious at his chancellor's wilful determination to fight the cause of Europe. Mr Clarke, ambushed in the spring over the referendum pledge, has scant confidence that Mr Major can be relied upon to keep his side of the bargain.

Two sure predictions can be made about events between now and the general election. The first is that the pressure on Mr Major to rule out sterling's participation during the next parliament will intensify week by week. The sceptics, inside and outside the cabinet, will argue that an election fought on the defence of the pound is the only one they can win.

They are wrong, stupidly so. But they have powerful allies in the editors of the newspapers owned by Rupert Murdoch and Conrad Black. And Mr Major has decided in his own mind that, whatever is said now, he would not be the prime minister who scrapped the pound.

The second certain forecast is that Mr Clarke will not retreat. He has told colleagues that in such circumstances he could not fight the election as e member of the government. Mr Major would have to find another chancellor. And, no, the present one would not return quietly to the backbenches. He is not that sort of bloke.

It was not Mr Clarke's intention to reignite the controversy this week. When he appeared on BBC Radio's *The World This Weekend* on Sunday, he had certainly been irritated by the demand from some Euro-phobes that the prime minister should sack him. He has never had much respect for Norman Tebbit. But the chancellor's characteristically careless use of language meant he was misunderstood.

Mr Clarke described as "pathetic" the notion that Britain should stand aside from Emu at the outset, waiting to see if France and Germany made a success of it before taking the plunge. Seen at face value, his remark suggested that the government should make up its mind one way or the other in 1998 and then, come what may, stick forever to that decision.

In fact, his intention was otherwise. The target of his scorn was the latest suggestion of some in the cabinet that the government should say *now* that sterling would not be among the first wave in 1999. The Maastricht option would not be closed permanently, rather put on ice for two or three years. For Mr Clarke, that would be almost, though not quite, as bad as ruling out joining for the entire parliament.

His reasoning is straightforward. Once the Conservatives decided to fight the election on a platform opposed to Emu, their influence in Brussels would vanish overnight. There would be no point in attending the meetings of finance ministers and central bankers hammering out the vital details of a single currency. Britain already has to shout to be heard. If it detached itself further, it might as well not bother.

The damage, though, would start rather than end there. Mr Clarke judges, rightly, that detachment from the single currency would have much wider consequences. Once an election had been fought in defence of the pound, it would be all but impossible to claw back the position later. The Conservatives could not go to the polls in 1997 as guarantors of the nation's monetary sovereignty and then decide to surrender sterling a few years later.

The ratchet of isolationism would turn decisively. With Britain outside the new economic core of the European Union, the sceptics would widen their assault. Why bow to a European Court whose aim was to further the federalist ambitions of Bonn and Paris? Why seek closer cooperation with nations taking an entirely different route into the next century?

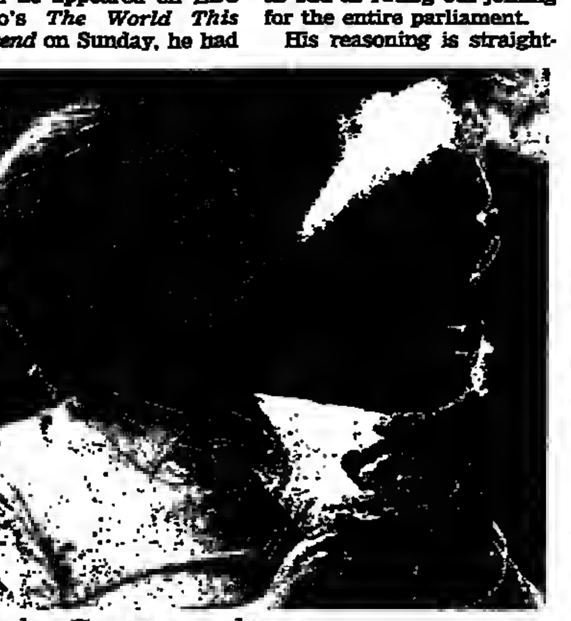
It would not be long before the Conservatives abandoned any pretence of Europeanism for the tawdry clothes of narrow nationalism. And if the sceptics won over Europe, then the right would win on domestic policy. The case for a European welfare system would not withstand disengagement.

Such, I suspect, is Mr Clarke's private reasoning. And he is right to be wary. For more than three years now he has watched Mr Major appease the sceptics. Nicholas Bonsor, whose public attack on the chancellor heightened the sense of crisis this week, is living testimony to that appeasement. He is a buffoon, given a middle-ranking job in the foreign office only to "prove" to the sceptics that the prime minister pays heed to their views.

Nor has Mr Clarke forgotten the circumstances of the referendum decision in the spring. He was unprepared for his defeat on the issue. The official story has it that the proposal was raised spontaneously in cabinet by, of all people, Douglas Hogg, the agriculture minister. But the chancellor must suspect he was deliberately ambushed by the prime minister. By staking out his position so publicly, Mr Clarke is telling Mr Major that he will not again be outmanoeuvred.

He is not alone. Michael Heseltine is conscious that his position as Mr Major's deputy limits his freedom of action. The outside world must not see any differences. But his basic view of Europe is as distant from that of the prime minister as is Mr Clarke's. Mr Heseltine believes that to slam the door on a single currency would be to repeat the historic mistake of the 1950s, when Britain stood aside from the European Community. Three or four others in the cabinet, among them John Gummer and Patrick Mayhew, take a similar view.

So Mr Major has a simple choice. He can stick with the present compromise, even though it will become ever more uncomfortable as the date of the election approaches. Or he can fight that election alongside the sceptics and amid the wreckage of his own cabinet. If he chooses the latter course, he might as well recall Norman Lamont to the Treasury. We must hope that thought offers reason enough for the prime minister to make the right decision.


Clarke: he will never surrender

Europa · Georges de Ménil

A pact that could destabilise the EU

Automatic fines could increase instability after economic and monetary union

Plans for a stability pact to enforce fiscal responsibility after monetary union have been further advanced after last weekend's meeting of European Union economics and finance ministers in Dublin. The draft would impose fines on countries that run government deficits greater than 3 per cent of gross domestic product for more than a few months.

But while those countries that sign up for the single currency from January 1 1999 will need some form of stability pact, automatic fines are not the best way to keep deficits down. A better approach would be an amendment to the Maastricht treaty committing monetary union members to control budget deficits, leaving it to national governments to achieve the objective.

European leaders are understandably concerned that without a stability pact, collective pressure for budgetary discipline would diminish as soon as a nation was deemed to have passed the Maastricht criteria for single currency membership. It is conceivable that a country could make efforts to be accepted into the monetary union, enjoy the benefits such as lower interest rates on its debt and then allow its budget deficit to grow.

Members of the monetary union would see such a country as taking advantage of the new monetary system and would be justified in insisting it pursued a lower deficit. But to build a stability pact around a formula with automatic fines is misguided for several reasons.

First, the proper objective for the fiscal balance depends on the circumstances. If the world were subject to an oil shock, for example, the impact on the economies of EU member states would vary according to each country's oil dependence. Differences in the depth of the resulting recession could justify differences of several percentage points in budget deficits from country to country.

The second flaw in a stability pact based on automatic penalties is that the task of determining when a fiscal correction is called for – and what should be done about it – should not be left to any mechanical formula, no matter how complex.

The first judge of the right balance is the market. The 50 states of the US have no stability pact to bind them but many have learned the hard way that excessive borrowing quickly puts up the interest rates they pay.

Financial markets are far better at policing excessive deficits than a technocratic formula. But the market is not enough. The transgressions of one member of the future monetary union could have an effect on the others.

Suppose, for example, that cyclical conditions call for e tightening of interest rates by the new European central bank, but that one member of the single currency is deeply in debt and precariously close to default. The difficulties of that nation could tie the hands of the central bank.

To avoid such a circumstance, the other members should be able to intervene directly or indirectly to deter delinquency well before it leads to default. Such considerations make mandatory co-ordination of fiscal policy a logical requirement. But co-ordination should be a process of dialogue anchored in prudent financial principles.

The third flaw in basing the stability pact on a rigid formula is that the penalties envisioned could make matters worse. The fines could be between 0.2 per cent and 0.5 per cent of gross domestic product, depending on the deficit size. In the example of an oil shock, a country experiencing a deep recession would find it exacerbated by the payment of such fines, which would also further increase its deficit.

The way to give more weight to the natural desire of the countries in the single currency to curb fiscal profligacy would be to write a commitment to balanced budgets into the Maastricht treaty. The amendment should be broadly framed to require each nation to keep its consolidated budget deficit under 3 per cent or an even lower figure – exceptional circumstances apart.

National parliaments should be required to take corrective action if a body of neutral experts representing the European Commission and the central bank rules that the objective of budget prudence was not being met.

Framed in such terms, the amendment would not short-circuit what should be a process of deliberate action by the elected members of national parliaments. And with the force of an international treaty – harder for member states to sidestep than any national constitution – it would be less likely to be swept aside by short-term considerations.

The stability pact will be an important brick in the edifice of monetary union. Rather than have recourse to a mechanical – and possibly perverse – formula, a requirement to limit fiscal deficits is the right way forward for Europe's leaders.

The author is professor of economics at the Ecole des Hautes Etudes en Sciences Sociales in Paris, and senior editor of the journal Economic Policy

LETTERS TO THE EDITOR

The basis of Italy's fiscal mess

From Professor A. Alesina and Professor R. Perotti.

Sir, The article by Martin Wolf on Italy ("Seize the moment", September 24) paints e picture of this country's public finances which is too optimistic in its forecasts, and incorrect in its explanation of how Italy got into this fiscal mess.

First, and this is the main misunderstanding, Mr Wolf writes that "it was not exceptionally high spending" that created the problem. Contrary to Mr Wolf's view, the critical factors underlying the Italian fiscal situation are uncontrolled spending for pensions, for an inefficient health system and for wages of unproductive public employees.

Italy's ratio of spending before interest payments over gross domestic product was 37.2 in 1980, 43 in 1989 and 45.3 in 1993; we are not quite sure how one can argue that spending in Italy did not increase very much in this period.

Furthermore, to say that low taxes are responsible for the increasing deficits in the past 15 years is like turning a tautology into an explanation: obviously revenues are lower than expenditures when there is a deficit, but revenues over GDP have increased from 33.3 in 1980, to 42 in 1989, and to 48.3 per cent in 1993, in a period when the debt/GNP ratio was skyrocketing. Note that the everage increase in revenues/GDP ratios in the other members of the European Union between 1989 and 1993 is about 1.5 percentage points of GDP.

Second, the recent decline in the spending over GDP ratios that impressed Mr Wolf so much is largely due to:

- Higher than expected growth in 1994 and 1995.
- A temporary halt to public investment due to the judicial investigations known as *mani pulite*.
- A (probably) temporary reduction in the growth of public-sector real wages, obtained by a strategic use of inflation objectives and realised inflation.
- Some cuts in various chapters of discretionary spending, some of which have a one-off nature.

The bottom line is that effective spending cuts on pensions, health and government employment are still to come. This is not surprising, since almost every budget decision in Italy (including the recent pension reform) has to be pre-approved by the unions.

Alberto Alesina,
professor of economics,
Harvard University,
Cambridge,
Massachusetts,
Roberto Perotti,
assistant professor of economics,
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Disappeared in military 'manoeuvres'

From Mr Justas V. Paleckis.

Sir, It was very surprising to discover strange "manoeuvres" in the minds of the British military ("On manoeuvres in the minds of the British military", September 14/15). Their map of the hypothetical war theatre in Europe fails to recognise Lithuania, Latvia and Estonia at the expense of Russia. I would strongly suggest that even fictional games of the military should respect the sensibilities of the Baltic states, since these countries were the only ones to disappear from the political map of Europe following the second world war. The past should not be forgotten and not repeated.

Justas V. Paleckis,
ambassador,
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Emu ensures only Germany's wealth

From Mr Martino Lorenzon.

Sir, We have been fed many reasons for economic and monetary union over the last few years. The most important has yet to enter public awareness properly. Germany wants to peg the D-Mark down with other currencies to protect it from rising in value, like the Yen has done in past years.

In the name of true European integration the D-Mark should be left to rise against weaker currencies, thus Germany would have to export industry, technology (and wealth) to remain competitive. Chancellor Kohl claims to be a true European so why lose this opportunity to truly merge with other countries? Japan has invested all over the world because of the strong Yen, helping the poorer and less evolved nations. What Germany is attempting to do with Emu is to secure wealth within its boundaries at the expense of other less competitive economies.

I believe Germany is more able to compete and produce quality products than other European countries and this competitive advantage evolves faster than those of the other countries. The only way slower, weaker economies can catch up with Germany's edge is through a free-market exchange rate. Emu would ensure wealth to Germany until eternity and ever-growing misery to its neighbours.

When all European countries share the same amount of wealth, evolve competitively at the same speed and have a common second language, talk about Emu could make sense.

Martino Lorenzon,
15 Stainsby Street,
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East Sussex TN37 6LA

Pensions a challenge

From Ms Yvonne Bennion.

Sir, Peter Martin is right to propose that "nothing better symbolises the nature of the long-term relationship between a company and its employees" than e British company's pensions policy ("The end of a golden era", September 19).

Trends in occupational pensions provision reflect corporate change. Although much of this debate is inevitably technical the lay person cannot afford to ignore it.

A pensions adviser used to tell me that people should put eway half their net pay towards a pension. No doubt this was designed to shock. But for anyone not covered by e good occupational pension e very large amount of money has to be set aside to maintain a good standard of living in later life.

We need better designed occupational pensions – that are both practical and affordable – in e world of interrupted work patterns. If this challenge is not met the burden on the state, already a concern, will undoubtedly grow.

Yvonne Bennion,
director, policy and development,
The Industrial Society,
48 Bryanston Square,
London W1H 7LN, UK

Beef value

From Mr J.J. Peachum.

Sir, In the same week the Swiss and UK governments have taken quite the opposite decisions pertaining to mad cow disease. I find only two ways to reconcile these decisions and wonder which is the appropriate one:

- Beef is more valuable in the UK than in Switzerland;
- In the UK a human being is less valuable than in Switzerland.

Of course, these two explanations are mutually consistent.

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FINANCIAL TIMES
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Friday September 27 1996

West Bank in flames

The fighting between Israelis and Palestinians across the West Bank and Gaza Strip in the past two days could be deadly to the faltering peace process. The 1987-93 *intifada* or Palestinian uprising against Israeli occupation was prosecuted mainly with stones and petrol bombs. This time Israel's troops met resistance from members of the 25,000-strong Palestinian security forces created under self-rule arrangements agreed at Oslo in 1993.

Second, Israeli troops, tanks and helicopters are reported to have entered areas the second Oslo agreement of last year – places under the jurisdiction of Mr Arafat's Palestinian Authority. But third, and most worrying, the issue which triggered the fighting is Jerusalem.

Without consultation, Israel this week opened up a new exit to a tunnal under Tample Mount, alongside Judaism's sacred Wailing (or western) Wall, but also alongsida the Haram ash-Sharif, the third holiest shrine in Islam after Mecca and Medina. This perceived violation of a Moslem sanctuary has outraged the Arab and Islamic world. It has also unleashed the frustrations of Palestinians at the standstill in the peace process that has followed the election in May of Mr Benjamin Netanyahu's coalition of hardline nationalists and religious fundamentalists.

Mr Netanyahu has made clear he will not agree to a Palestinian state, and will therefore not discuss the return of occupied east Jerusalem as its capital. These difficult issnes, along with the future of Jewish settlements on Arab land and of Palestinian refugees, are supposed to be negotiated between now and May 1999, the "final status" stage of Oslo. But after 100 days in office, Mr Netanyahn has not moved on dozens of delayed commitments, inclnding the handover of the West Bank city of Hebron.

His government is instead busy completing the encirclement of Arab Jerusalem with a wall of Jewish settlements.

The Oslo agreements, whila flawed and complex, offered hope for peace – so long as Palestinians felt there was momentum and progress. That momentum must be re-established if Israelis and Palestinians are to remain partners and stop the slide into violence.

Mr Netanyahn is thus right to seek an immediate meeting with Mr Arafat. They need to discuss the handover of Hebron, and the easing of the Israeli blockade of Palestinian territory. Whatever position Israel intends to pursue on Jerusalem, it should stop actions liable to be seen as attempts to pre-empt the outcome of talks which have not started. Otherwise, it risks inflaming religious passions throughout the Arab world, many of whose leaders, like Israel, are under challenge from Islamic fundamentalists.

Telecommunity

The announcement yesterday that British Telecommunications is to set up a joint venture in France with Compagnie Générale des Eaux shows the progress which has been made in liberalising Europe's telecommunications markets – and the limitations.

The deal is one of the largest among many similar alliances in preparatioo for a European Union agreement to deregulate voice telephony on January 1 1998. Sucb deals represent a welcome increase in competition across frootiers. The behemoths of state ownership, which grew fat, slothful and unresponsive, are evolving into private sector companies. As the feoces of national monopoly are broken down, they must prepare for Darwinian selection in a world of agile predators.

That is the theory. However, mucb of the European industry has been slow to give up its protected environment. Several governments, including those of France, Germany, Italy, Spain and Greece, have also been unenthusiastic about the liberalisation. Eveo after 1998, they will retain strong regulatory powers, with which they could obstruct competition.

Partly for this reason, companies such as BT which want to penetrate new markets are forging alliances with domestic companies, which might be favoured by national authorities. So although the latest deal may be a herald of competition, it might equally prove to be a way for large established companies to secure a cosy corner in a protected market. The outcome will depend on whether effective regulatory regimes are established.

During the last decade, the work of Oftel, the UK regulator, shows that constant vigilance and detailed technical knowledge are needed to ensure that competition is not stifled in many subtla ways. National governments must therefore lose no time in setting up independent regulatory offices. Oftel is a good model.

EU law and institutions will offer an appeal against corrupt or nationalistic regulators, hnt the EU should not become involved in the detailed business of regulation. A Europewida regulator such as the US Federal Communications Commission would soon become unwieldy, bureaucratic and subject to national lobbying.

To avoid this, European governments must show that they are serious about regulation and really do want a free market. The prizes are high. Cross-border calls in Europe are three to six times more expensive than in the US. There, competition is not a dirty word, as it was for decades among Europe's state companies and their government cronies.

Bosnian travesty

The Organisation for Security and Co-operation in Europe (OSCE), which organised this month's Bosnian elections, has to decide by Monday whether to certify the results as valid.

It is a grave responsibility. The "international community", meaning the governments of Nato, the European Union, and Russia, is relying on this certification to clear the way for the first meeting of the newly elected three-man presidency, the lifting of sanctions against the rump Yugoslavia and the (Bosnian) Serb republic, and other steps leading to withdrawal of external forces.

But the truth is that the elections were not valid. No one who has been in Bosnia in the past three months could honestly say that the five basic conditions laid down by the Dayton peace agreement – a politically neutral environment, the right to vote in secret without fear or intimidation, freedom of expression and the press, freedom of association, and freedom of movement – have been met.

The Dayton agreement purported to undo the worst consequences of war by allowing Bosnians to return to their homes, to move freely and safely about their country, and to choose new leaders from parties which could campaign across the country on equal terms. But the election has ratified the consequences of the war, by allowing three nationalist leaderships to consolidate and legitimise their hold in separate territories.

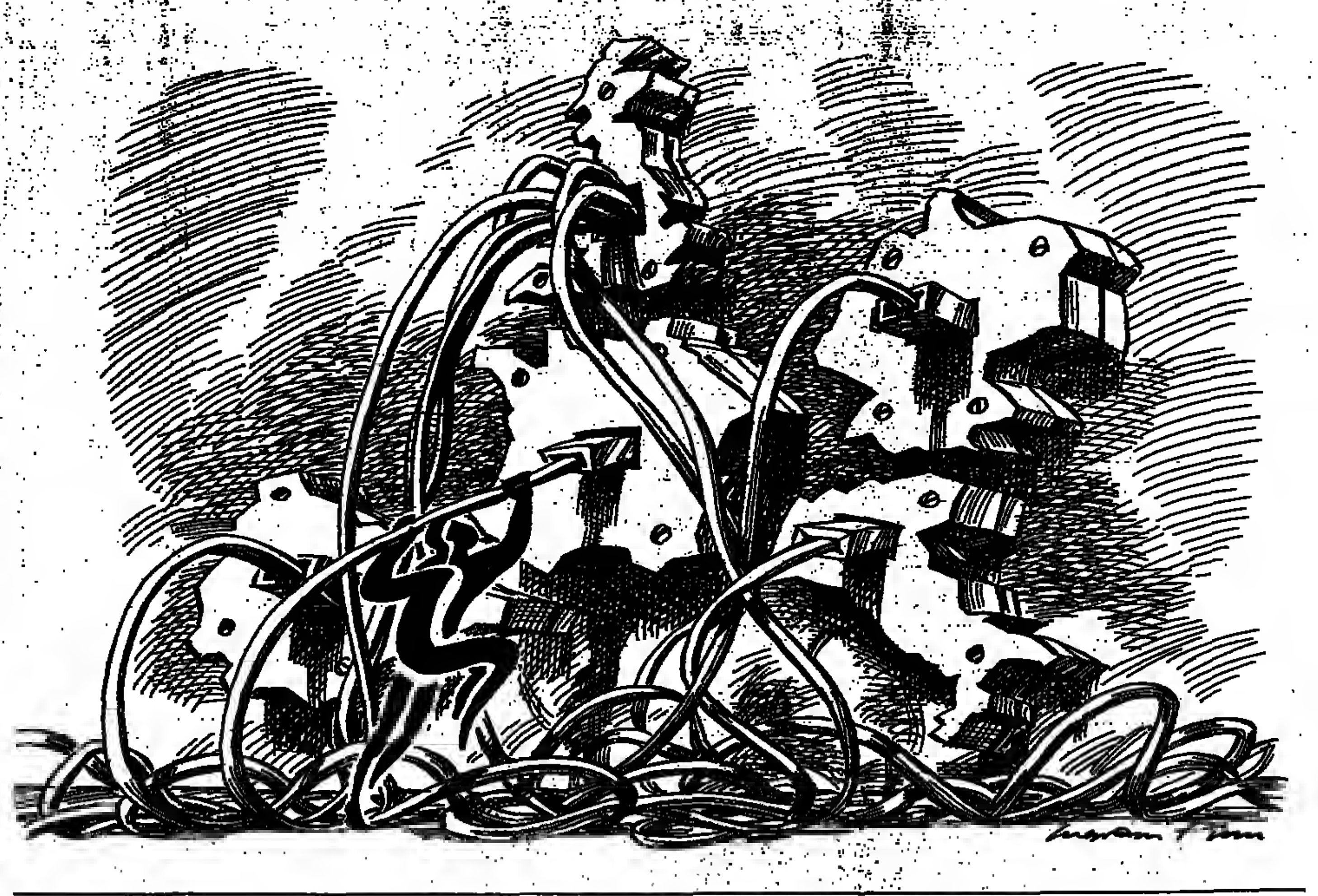
Many displaced Bosnians did not apply for absentee ballots because they were told they could vote in their original homes. Municipal elections, to have been held on the same day, would have enabled them to choose a local administration under which they would feel safe. But the OSCE was forced to postpone the municipal elections at the last minute, because the Serb authorities had put pressure on displaced Serbs to apply for ballots in Serb-occupied places where there had been a Moslem majority.

Partly for this reason, many Moslems and Croats decided not to risk crossing into what was clearly still enemy territory, and so lost the right to vote. In spite of that, a turnout was recorded so high as to be extremely suspect.

Declaring the elections invalid would be a very risky move, obliging the international community to confront either the magnitude of the task it undertook at Dayton, or the ignominy of admitting that those undertakings were never meant to be taken seriously. But it would also be the only honest course for an organisation fashioned at the end of the cold war to set and monitor standards of democracy in "Europe whole and free".

A clear line to Europe

BT's French deal is the latest attempt by a big telecoms group to prepare for EU deregulation, say **Alan Cane** and **David Owen**



British Telecommunications has been searching for more than two years for a French partner to plug the last big gap in its network of European partners.

Yet at yesterday's press conference to announce, at long last, a strategic alliance with the utilities, property and communications group Compagnie Générale des Eaux, BT boasted of "short and mostly sweet" negotiations between two companies whose complementary aims and ambitions have been obvious to the industry's matchmakers.

Sir Peter Bonfield, appointed BT chief executive nine months ago, said that if the company had taken its time combing France for a prospective partner, he personally had not; tha inference was that he was injecting a new urgency into BT'a decision-making as it prepared itself for open competition in European telecoms.

The speed with which BT and CGE concluded their deal is a lesson all Europe'a operators – the majority still state-owned and operating as monopolies – may take to heart. Time is short. The key date is January 1, 1998, a mere 15 months away, when the majority of EU countries are obliged to dismantle the barriers to open competition in public voice and data services.

The deal with CGE, through which BT will acquire for a little over £1.1bn in cash a 25 per cent stake in Cegetel, a new French telecoms group in which CGE has a 50 per cent stake, is the latest stage of the UK group's biggest international gamble.

The prize for success would be the crown as Europe'a leading operator. BT's idea is to be among the handful of global supercarriers likely to survive the onslaught of new competition after 1998, when prices and profit margins will be forced down.

Its strategy is simple: in each of tbe major countries it has formed an alliance with a local company with telecoms ambitions with the intention of becoming tha chief competitor to the incumbent operator.

In soma cases, tha allianca gives it access to an alternative transmission capacity – to fibre optic pipes and wires other than those belonging to the national operator. In Germany, for example, BT is in the final stages of concluding a joint venture with the industrial groups Viag and RWE which will invest up to DM4bn (£2.6bn) in developing a new telephone network over the next few years.

Other partnerships give it a share in fast-growing new services. The CGE deal, for example, gives it a share in SFR, second only to France Télécom in mobile services. Mr Philippe Germond, managing director of SFR, said yesterday that the penetration of mobile phones in France was only 3 per cent compared with about 10 per cent in the UK and close to 20 per cent in Scandinavia – a measure of the growth potential.

Both BT and CGE are led by individuals who learned their skills outside the traditional telecoms environment. Mr Bonfield, 52 years old and formerly chief executive of the UK-based computer company ICL, has a formidable reputation as a technologist and manager.

Mr Jean-Marie Messier, who is not yet 40 and who took over at the helm of Générale des Eaux earlier this year, is reputed to be the pick of the new wave of young French managers. He has already done much to transform Générale des Eaux's reputation from that of a staid, rather secretive utility to a more progressive and outgoing concern. He was recently described by Le Figaro, the French daily newspaper, as "an almost perfect young man".

Some say he has held more press conferences in the past six months than his predecessor Mr Guy Dejouany did in 10 years.

BT has a further advantage in Concert, a global carrier it created in conjunction with MCI of the US in which it holds a 20 per cent stake. Concert services are available to multinational customers directly or through distributors in 800 cities and more than 50 countries. It has unconditional regulatory approval from both Brussels and US regulators – unlike Global One, created by Deutsche Telekom, France Télécom and Sprint of the US or World Partners, an alliance led by AT&T of the US. Despite these positive indications, BT's European investments – and those of rival operators following a similar strategy – remain a gamble because of the uncertainties ahead.

Success, first of all, will depend on winning full operating licences in each European country, enabling operators to offer a comprehensive range of voice, data and multimedia services to business and residential customers.

Each country will decide how many licences it is prepared to issue. In the UK, for example, where there has been open competition since 1991, there are more than 150 licensed operators.

There is no guarantee that BT's strategic alliances will win full licences. Most countries, however, could be expected to follow the example of Germany and France in offering licences to companies which can demonstrate technical and commercial competence.

The second potential problem is regulation. The rules which will govern markets moving to open competition have not yet been set in most European countries. Interconnection charges (the price one operator charges another for transmitting or delivering calls) have yet to be set. These charges can represent the larger part of a competing operator's overheads.

Rules for providing universal service – a basic telephone service at a reasonable price for everybody no matter where they live or what their means – have yet to be set. Universal service is traditionally an obligation for a state-owned monopoly but not for a private operator.

A final hurdle is fair trading. It is easy for an incumbent operator to make it difficult for new, smaller rivals to compete effectively without necessarily breaking any rules. BT said yesterday that it would expect any incumbent faced with full competition to lose between 25 per cent and 30 per cent of its market share over a 10-year period.

BT, in the UK, however – through its dominance of the "local loop", the final connection between home and exchange – has lost considerably less.

If BT and others are gambling with their future in Europe, customers across the continent are certain winners. The opening of telecoms markets to competition means lower prices, better service and a wider choice of suppliers, products and services.

Mr Bert Roberts, chairman of MCI, BT's US partner, told an audience in London last night that research showed the average price for leased line access to the Internet in companies with a monopoly infrastructure last year was 44 per cent more expensive than in countries where competition was open.

But the first effects of the new alliance between BT and CGE will be felt in France. As Mr Messier put it yesterday: "Today is the first day of the beginning of competition in the French telecoms market."

British Telecom's alliances around the world

BT's principal alliance is with MCI, Alan Cane writes. It paid $4bn for a 20 per cent stake in the US long-distance carrier two years ago and announced Concert, a joint venture in which BT holds 75.1 per cent.

BT and MCI have an array of joint ventures and arrangements designed to distribute Concert services in more than 50 countries. These include "virtual networks" which use computer intelligence to provide the advantages of expensive leased lines for the price of dialled telephone calls.

In Germany BT has an alliance with Viag, the industrial group, resulting in the formation of a 50:50 joint venture, Viag Interkom. Plans are to invest some £600m over 10 years. In 1996, the two companies said RWE, the power utility, would join them.

Earlier this year BT and Italy's Banca Nazionale del Lavoro said Albacom, their joint venture, would take a 2.4 per cent stake in Mediaset, the television and media group controlled by Mr Silvio Berlusconi's Fininvest group. Albacom is a telecoms operator targeting the top 3,000 Italian companies. BT's share is 50.5 per cent and investment of some £150m over 10 years is planned.

In Spain BT negotiated a 50 per cent stake in Megared, a data transmission company owned by Banco Santander: £400m will be invested over the next 10 years.

Last week BT and NS, the Netherlands state railway, said they would invest $590m to establish a fixed-line telephone service in competition with KPN, the privatised posts and telecoms utility.

OBSERVER

In for stormy weather?

■ Is a new class divide emerging in the European Union? We only ask because a poll suggests there's a considerable split over – you guessed it – the single currency.

The polling organisation Eurobarometer asked 3,778 of what it calls "top decision makers" or "TDMs" – politicians, civil servants, business types and others – whether they favoured a single currency for the EU; 51 per cent believe it to be a very good idea.

Yet an earlier Eurobarometer survey found that a measly 20 per cent of people outside such elevated ranks hold the same view.

A similar result emerges when it comes to EU membership; 94 per cent of TDMs think it's a grand notion, compared with 48 per cent of ordinary people. There's an even bigger gap over whether EU membership is beneficial; 90 per cent of the top dogs believe their own country to be better off, compared with 45 per cent of the lesser lights.

Sick bed fax

■ France Télécom unwittingly lent its future competitors in Cegetel a helping hand in their preparations for yesterday's set-piece press conference in Paris.

With Mannesmann's Peter Mihatsch sick in bed, the formalities enabling yesterday's announcement to take place had unexpectedly to be completed – as Jean-Marie Messier, Générale des Eaux chairman, revealed – by sending the text to Mihatsch's home fax – going via France Télécom's lines. You have to take the contracts whatever they come from...

We made it

■ The chaps at Daimler-Benz Aerospace were very diffident about their chances of being allowed to buy STN Atlas, the German defence electronics boutique, now up for grabs following the bankruptcy of the Bremer Vulkan shipping group earlier this year. But they've made it into the final beauty parade, out of 30 original bidders.

Why was Dasa so nervous? The answer lies in a very German mix of geography and culture. Dasa, based in Munich, is run by conservative Roman Catholic types, whereas Bremer Vulkan is managed by rather prim Protestant northerners. The Bavarians have another problem when it comes to bidding for Bremen-based companies – last year they closed one of their plants up there.

Hardly the sort of thing to impress Henning Scherf, Bremen's mayor, whose private role in the city state means he has been sweet-talked by all sorts of bidders, including British Aerospace. Dasa [illegible] told not to show up in Bremen with foreigners like BAe, but now the two have reached the second round, maybe they'll make it in tandem?

Small paradise

■ Mogens Lykketoft, Denmark's finance minister, [illegible] trumpets his achieving a semi-miracle – holding inflation low, while simultaneously [illegible] reducing the budget deficit and reducing unemployment.

All of which has just brought him the accolade of European finance minister of the year, from the magazine *Euromoney*.

The miracle owes a little to timing. After all, the long, hard slog to stabilise inflation, eliminate a large current balance of payments deficit and rein in government finances was largely the accomplishment of Conservative-led coalition governments between 1982-93. It was relatively plain sailing for Lykketoft when he took over in early 1993.

As for unemployment, the headline figure has fallen since 1994 from 12.5 per cent [illegible]

By Jeeves!

■ [illegible] Gerry Adams [illegible] directing Sinn Féin's "peace strategy". During yesterday's launch of his autobiography *Before the Dawn* – rich in Irish republican sentimentality yet strictly undercover when it comes to links with the IRA – he said he's a bookworm, with a favourite author being P.G. Wodehouse. Said Adams: "I always treat butlers with absolute deference. I think they're long-suffering in many ways." Just how many butlers he knows is not revealed in the book.

Babble sandwich

■ Overheard [illegible]: "I'll have an everything bagel with nothing on."

Financial Times 50 years ago

India's Import Policy

First indications are now available of the import trade policy to be pursued by India's Interim Government. Importers are to be provided with more dollars and other hard currencies to finance the purchase of badly needed capital and consumer goods. The progressive relaxation of import controls is planned, along with safeguards for developing industries. The new Government is to retain the much-criticised system of quota imports for certain goods. Under this system permits will be determined by the parties' average pre-war imports.

Higher Rail Rates Opposed

New York.– Several Government agencies expressed opposition to the full 25 per cent freight rate increase which the railroads are requesting of the Inter-State Commerce Commission. Mr J.K. Knudson, attorney for the Department of Agriculture, said that distributing, marketing and transportation of agricultural products will suffer if "an added burden of anything like a 25 per cent freight rate increase is imposed in the uncertain post-war era that we are now entering."

FINANCIAL TIMES
Friday September 27 1996

India's Rao charged with forgery and conspiracy

By Lisa Vaughan in New Delhi

Indian police yesterday charged Mr P. V. Narasimha Rao with forgery and criminal conspiracy only days after the former prime minister was ordered by a Delhi judge to answer separate swindling charges in court.

The charges add to the tide of scandal that ultimately forced 75-year-old Mr Rao to quit the leadership of the Congress party at the weekend.

His troubles are another setback for the Congress party, which lost control of the government in May after its worst general election performance ever. Mr Rao, who was prime minister from 1991 until the election, was the driving force behind the opening up of the Indian economy during this period.

Yesterday's charges, filed in a Delhi court, allege that Mr Rao, while external affairs minister in the 1980s, played an active role in forging documents to discredit opposition leader Mr V. P. Singh, who later became prime minister.

The charges were laid just hours after the Delhi High Court rejected Mr Rao's request for legal protection against arrest in a swindling case involving London businessman, Mr Lakhubhai Pathak.

Mr Rao is alleged to have cheated Mr Pathak of $100,000, an allegation the former Congress leader denies. Mr Rao will appear before the court on Monday as a co-accused in the Pathak case.

Yesterday's criminal charges carry a penalty of at least seven years in jail. Mr Rao and three others were charged with criminal conspiracy, giving false evidence, and two counts of forgery.

A source close to Mr Rao's legal team said that, following the fresh charges in the forgery case, Mr Rao had dropped plans to challenge the denial of interim protection against arrest in India's highest court.

Since Congress's electoral humiliation, the party has been demoralised by a string of corruption cases involving Mr Rao and many of his former colleagues, including the former telecoms minister Mr Sukh Ram.

Police found $1m at Mr Ram's Delhi home. Mr Ram presided over a telecoms privatisation programme involving the award of cellular licences.

On Wednesday, Mr Satish Sharma, a former petroleum minister in the Rao government, was fined and ordered by India's Supreme Court to explain within two weeks why he should not be prosecuted for criminal breach of trust for dispensing 15 petrol pump licences to favourites.

A lawyer in the case said: "For the first time in India, public officials have to be accountable. For 50 years, they have been above the law. These cases are going forward and will not stop here."

Signs of slowdown support Fed rate decision

By Michael Prowse in Washington

New orders for US durable goods dropped sharply last month, indicating a possible slowing of economic growth in coming months, the Commerce Department said yesterday.

The figures will be welcomed by senior Federal Reserve officials as apparent support for their decision on Tuesday not to raise short-term interest rates.

New orders fell a seasonally adjusted 3.1 per cent between July and August, more than wiping out a 1.4 per cent gain in the previous month. Wall Street economists had expected a decline of 0.1 per cent.

Analysts, however, warned against reading too much into the figures. Data on orders are notoriously volatile on a monthly basis. Orders so far in the third quarter are running above their second-quarter average, pointing to continued economic growth.

The figures were depressed last month by an erratic 38 per cent decline in aircraft orders. Excluding transport, orders were down only 1.6 per cent last month following a 2.4 per cent gain in July.

Bond investors reacted favourably to the figures. In afternoon trading the benchmark 30-year Treasury bond was up $\frac{9}{32}$ to yield 6.871 per cent. The Dow Jones Industrial Average was up 9.99 at 5,887.35.

Separate figures yesterday showed a modest increase in state claims for unemployment insurance to 340,000 in the week ending September 21. But the level of claims was still low by historical standards.

The International Monetary Fund this week criticised the Fed, the US central bank, for failing to raise interest rates. A senior official said a slight increase in rates would have been prudent and warned that the cost of delay might be a sharper increase in rates later.

The Fed was under pressure to lift rates because the unemployment rate had fallen to 5.1 per cent, below the level often associated with rising inflation. The economy has also grown much faster than the Fed predicted. Real gross domestic product grew at an annual rate of 4.8 per cent in the second quarter, about double its long-run potential.

Most economists expect growth to slow in the third quarter but there is disagreement about the extent and duration of any slowdown. Recent figures have offered little guidance.

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THE LEX COLUMN

Entente cordiale

British Telecommunications has been so desperate to crack the French market that it risked cutting a foolish deal. Fortunately, it has not. The FFr8.85bn ($1.78bn) it is paying for its 25 per cent stake of Cegetel, a new venture with Compagnie Générale des Eaux (CGE), is certainly not cheap. But, as part of the bargain, it gets a 20 per cent economic interest in SFR, France's second mobile communications operator. Given that Cegetel will also have a pile of cash and some other assets, SFR is being valued at around FFr37bn. That is only a modest premium to the value used when Vodafone increased its stake in the operator earlier in the year.

While the stake in SFR has clear immediate value, the longer-term potential comes from opening up France's fixed-line telecommunications market, currently a France Télécom monopoly, in 1998. By teaming up with CGE, BT has not only chosen the strongest local rival to France Télécom; it has also replaced AT&T as CGE's international ally. Of course, BT has had to settle for a minority role. But the deal still means it has found the last big piece to its European jigsaw puzzle.

That said, given BT's reluctance to reveal many figures on its European push, it is impossible to judge whether all this empire-building is in shareholders' interests. It may well be, but even so BT has hardly covered itself in glory with its international strategy. While nifter rivals have chiselled away at monopolies by building mobile communication and local business networks, BT has stuck to the duller long-distance market.

Alcatel

How can one acquire an indebted, loss-making company without worsening one's own debt position or diluting earnings? At first sight, the puzzle – faced by Alcatel in its bid for Thomson, the French state-controlled electronics group – appears insoluble. Still, the group does seem to have a plan to square the circle. Its ingredients are government subsidies, Korean cash and "big bath" provisions.

First, take the French government. It will be asked to write off some of Thomson's FFr25bn debts – figures of FFr5bn-6bn are being bandied about. There is little reason to suppose it will not play ball; after all state aid is one of its trademarks (vide Crédit Lyonnais). Next comes Korean cash: a Samsung or Daewoo could pump money into Thomson's consumer electronics arm in exchange for a majority stake. A big benefit would be that Alcatel could deconsolidate the remaining debt from its balance sheet. Then comes a restructuring provision for closing unwanted factories. With all that cost taken upfront, the consumer electronics arm would soon be back in the black.

One could quibble that such deconsolidations and provisions are mere accounting tricks. And it is certainly necessary to see the details of any deal before passing judgment. Still, if Alcatel ends up owning Thomson's defence electronics arm without having to carry the albatross of consumer electronics round its neck, it will have engineered something of a coup.

Invesco/AIM

For Invesco shareholders, the prospect of some sort of merger with AIM Management – one of the fastest-growing US mutual fund managers – is a daunting prospect. The reason is not strategic logic; from this point of view a link-up could make plenty of sense. AIM's powerful position in US retail products would neatly complement Invesco's strength in the institutional market. And the revenue benefits from putting a broader range of products through pooled distribution channels would give a powerful boost to profits; these are, after all, highly operationally geared businesses with many fixed costs. Nor is that all: combining the businesses should create plenty of scope for cost-cutting from eliminating duplication. The snag is that such a deal is unlikely to come cheap. Suggestions yesterday that Invesco might pay $1.8bn for AIM – 70 per cent more than Invesco's own market capitalisation – look wildly implausible. Such a price would represent 37 times AIM's 1995 earnings. Even so, the phenomenal growth of US mutual funds has certainly created a seller's market for middle-sized fund managers. Commercial and investment banks have been snapping them up on an almost weekly basis. And they have had to pay full prices – especially considering that the formidable growth of such funds could well come to an abrupt halt if Wall Street hit trouble.

Guinness

Guinness admitted yesterday that it had done little for shareholder value over the past few years. A glance at its share price, which has underperformed the stock market by 50 per cent since 1992, amply confirms this verdict. But while the management's honesty is refreshing, it needs to be backed up with a strategy that will put things right.

The group's rediscovered passion for building brands will only take it so far. Of course, this is much better than its past tactics, which amounted to little more than cutting whisky prices. But it will require a lot of patience from investors; it may take another three years before the increased marketing effort translates into higher sales and volumes. In the meantime, there is a heavy short-term cost. The extra £30m ($47m) to £50m Guinness is spending on branding this year will come straight off profits. And since all its competitors are doing the same thing, it is questionable how much of the benefit will ever filter down into profits.

But there might be other ways of unlocking value. The spirits industry is crying out for consolidation and it would be a shame if Guinness' poor acquisition experience stopped it from taking part. A bid for Grand Metropolitan is not the way forward, but most of the cost savings such a takeover promised could surely be captured through more informal links. If old rivals like British Petroleum and Mobil managed to pool large parts of their European businesses recently, why not Guinness and Grand Metropolitan?

Additional Lex comment on executive pay, Page 25

Jardine Fleming

Continued from Page 1

chairman. A new 10-member supervisory board has been introduced, dominated by representatives of the joint venture's two shareholders, Flemings of the UK and Hong Kong's Jardine Matheson, and chaired by Mr Alasdair Morrison, the latter's managing director.

Mr Armstrong, who has repaid about $3m as part of his settlement with the firm and Hong Kong regulators, is believed to retain substantial profits from earlier trading on his personal account.

Flemings said it was not pursuing legal action against him.

The Investment Management Regulatory Organisation, last month fined Flemings £700,000 ($1.09m) for irregularities in its Hong Kong fund management operation.

Israel acts

Continued from Page 1

The fighting spread to the West Bank town of Nablus, where the biblical tomb of Joseph is located. Mr Dayan said there was a "real battle" around the tomb. Witnesses said Palestinian police were trying to protect the Israeli soldiers against angry Palestinian demonstrators."

Fighting continued in Ramallah as Palestinian police tried to prevent young Palestinians from throwing stones at the Israeli troops at the main checkpoint into the town. In Gaza, where the intifada first started, Israeli television reported that more than 500 were injured.

Russian defence chief welcomes closer Nato ties

By Bruce Clark in Bergen

Russia yesterday endorsed proposals for closer co-operation between its armed forces and Nato, but also threatened to retaliate if the alliance expands.

General Igor Rodionov, Russia's new defence minister, welcomed an offer by his Western counterparts to take part in planning peacekeeping missions in Bosnia and elsewhere.

He also delivered a stern message against Nato's enlargement plans, though stopped well short of saying that expansion would wreck all hopes of a constructive Russia-Nato partnership.

"The enlargement of Nato has aroused deep alarm in Russia's president, political leadership and public opinion," he said.

Earlier, on arrival in Bergen, General Rodionov told Russian television that Moscow had prepared "adequate measures" of retaliation which would be revealed if and when enlargement took place.

Asked later to specify those measures, the minister struck a softer note, saying his main "secret weapon" was the profound opposition of Russian public opinion to Nato's plans to take in at least three new members by the end of the century.

The minister, a tough military reformer who took office three months ago, said Nato would exceed the limits on its weaponry laid down by the Treaty on Conventional Forces in Europe if it expanded. But Mr Volker Ruhe, the German defence minister, said Russia's concerns could be addressed in a new round of arms talks next year.

The general's stance comes at a time of lively debate in western capitals over how far Nato should go towards assuaging Russian objections to enlargement.

Mr William Perry, the US defence secretary, wants intensified day-to-day contact between Moscow and the alliance, and for Russia to be involved in planning Nato-led peacekeeping missions.

The model developed for peacekeeping in Bosnia – under which a senior Russian officer has been posted to Nato military headquarters at Mons in Belgium – could be extended to all future operations, US officials say.

They also favour a Russian presence at the home bases of Nato's proposed "combined joint task forces", ad hoc military missions run from highly sophisticated mobile command centres which are likely to involve both members and non-members of the alliance.

Asked about US intentions in Bosnia, Mr Perry said Washington could not as yet promise to keep troops there after the expiry of Nato's current mandate in December, but would consider advice from Nato military experts.

Editorial Comment, Page 17

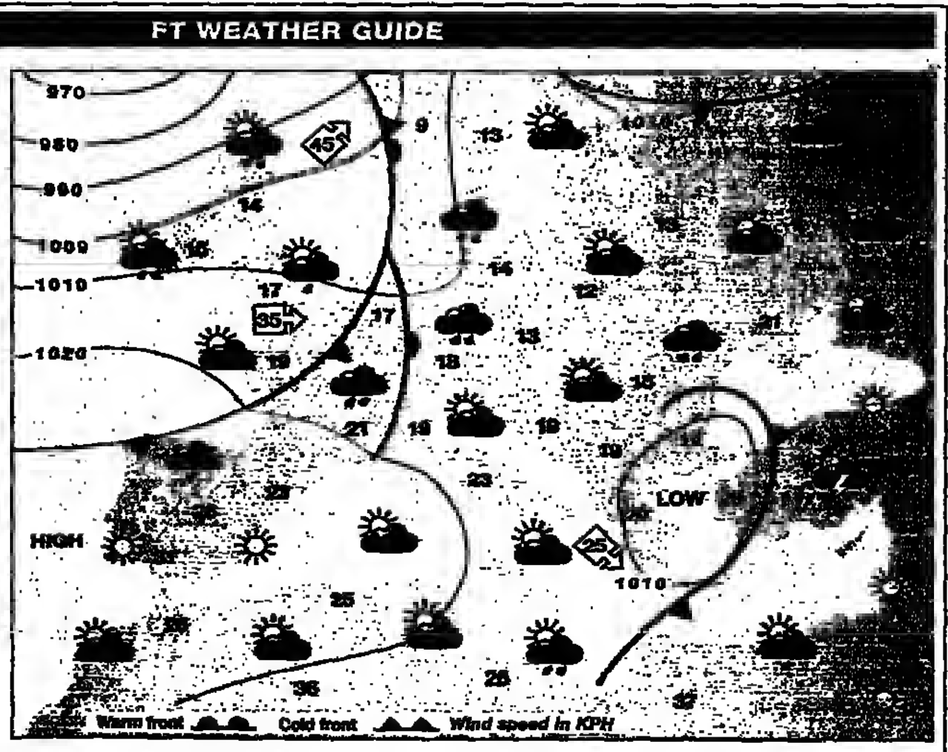
FT WEATHER GUIDE

Europe today

A band of cloud and outbreaks of rain will move further into the continent and southern Scandinavia. In the wake of the rain, sunny spells interspersed with showers will occur across the UK, the western Benelux and France. Northern Spain and Portugal will be cloudy with some rain but southern sections will continue sunny and warm. Central Europe will stay rather cloudy and cool but most places will be dry. The Balkan states will have rain and showers. Greece and western Turkey will have occasional thunder showers. Italy will remain mostly dry.

Five-day forecast

A westerly flow will bring a series of frontal systems into western, northern and central Europe. Most areas will be unsettled with frequent rain or showers and some strong winds. South-western Europe and most of the Mediterranean will be rather sunny and warm.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum	Beijing	fair 25	Caracas	thund 31	Faro	sun 27	Madrid	fair 25	Rangoon	shower 29
	Celsius	Belfast	shower 14	Cardiff	shower 16	Frankfurt	rain 18	Majorca	sun 24	Reykjavik	shower 6
Abu Dhabi	sun 37	Belgrade	fair 14	Casablanca	sun 25	Geneva	rain 18	Malta	sun 26	Rio	cloudy 24
Accra	cloudy 29	Berlin	fair 15	Chicago	shower 20	Gibraltar	sun 23	Manchester	shower 15	Rome	fair 23
Algiers	sun 25	Bermuda	fair 27	Cologne	rain 18	Glasgow	shower 14	Manila	fair 32	S. Frsco	sun 25
Amsterdam	shower 17	Bogota	fair 19	Dakar	sun 29	Hamburg	fair 14	Melbourne	fair 16	Seoul	sun 26
Athens	thund 25	Bombay	fair 33	Dallas	cloudy 26	Helsinki	fair 11	Mexico City	fair 22	Singapore	cloudy 32
Atlanta	thund 26	Brussels	shower 17	Delhi	sun 35	Hong Kong	fair 30	Miami	fair 31	Stockholm	fair 13
B. Aires	drzzl 16	Budapest	fair 13	Dubai	sun 37	Honolulu	fair 31	Milan	fair 16	Strasbourg	rain 18
B.ham	fair 18	C.hagen	rain 12	Dublin	shower 15	Istanbul	shower 22	Montreal	fair 17	Sydney	fair 20
Bangkok	shower 35	Cairo	sun 33	Dubrovnik	fair 19	Jakarta	fair 33	Moscow	cloudy 10	Tangier	sun 26
Barcelona	fair 23	Cape Town	fair 25	Edinburgh	cloudy 15	Jersey	fair 18	Munich	fair 18	Tel Aviv	sun 31
						Karachi	fair 34	Nairobi	fair 27	Tokyo	fair 23
						Kuwait	sun 38	Naples	sun 22	Toronto	cloudy 21
						L. Angeles	fair 29	Nassau	fair 31	Vancouver	fair 19
						Las Palmas	fair 28	New York	fair 23	Venice	fair 19
						Lima	cloudy 18	Nice	sun 27	Vienna	fair 16
						Lisbon	sun 26	Nicosia	sun 31	Warsaw	shower 12
						London	fair 17	Oslo	rain 11	Washington	fair 26
						Lux.bourg	rain 15	Paris	shower 19	Wellington	shower 14
						Lyon	rain 21	Perth	shower 16	Winnipeg	cloudy 12
						Madeira	fair 24	Prague	cloudy 16	Zurich	shower 16

FINANCIAL TIMES SURVEY

Friday September 27 1996

WORLD ECONOMY and FINANCE

PART 1

- The global economy and the Group of Three — Pages 2-4
- Global integration and emerging markets — Pages 5-17
- In Part two: International institutions

Bank annual meetings
Washington
to October 3 1996

The shift in global economic power is illustrated by the rise in importance of the emerging countries, many of which are swiftly making up ground on their richer industrial rivals, says **Robert Chote**

Developing nations flex their economic muscles

In all but one of the last 33 years the world's developing economies have grown faster than their richer rivals. With the industrial countries now several years into their weakest cyclical upturn for a generation, it looks increasingly likely that their annual output of goods and services will be overtaken in six or seven years.

As the world's finance ministers and central bank governors gather in Washington for the annual meetings of the World Bank and the International Monetary Fund, this ongoing shift in global economic power will form an important backdrop to many of the issues under debate.

When the IMF and World Bank were founded a little more than 50 years ago the US and western Europe were clearly the world's dominant economic countries. But as Asia, Latin America and eastern Europe gradually make up ground – albeit with setbacks along the way – the structure and outlook of these institutions looks increasingly out of date.

The tensions are already showing. Some of the more successful developing countries are pressing for bigger "shareholdings" in the IMF to reflect their growing economic strength; other nations are reluctant to be leapfrogged. Industrial and developing countries also remain divided on proposals to give central banks in poor and transitional economies greater access to foreign exchange reserves via the Fund's overdraft facility.

Efforts to establish a $50bn credit line for the IMF to be used in the event of further financial crises of the sort which seriously affected Mexico have also focused attention on the reluctance of international institutions to adapt. The members of the misnamed Group of Ten – the US, Canada, Japan and eight European nations – have asked several emerging market countries to join them in doubling the credit line which they already provide to the IMF. At the same time the G10 nations have refused these countries full membership of their club, which discusses developments affecting the world financial system.

These examples illustrate how difficult it is to balance the desire of developing and newly industrialising countries for recognition of their growing importance in the world economy with the unwillingness of mature industrial countries to allow their accustomed influence to wane. This dilemma has also hampered efforts to expand the membership of the Bank for International Settlements (the central bankers' bank) and the Organisation for Economic Co-operation and Development (the industrial country think-tank). It will no doubt cause problems, too, when the European Union embraces the former communist countries of eastern Europe.

A similar tension also afflicts the powerful Group of Seven – which comprises the US, Japan, Germany, Canada, France, Italy and the UK. Russia already enjoys a semi-detached status and would like to become a full member, while China will have a serious claim to join in the future. Meanwhile, the separate representation enjoyed by the four European members will be brought into question when some or all of them begin sharing a single currency.

One argument against expanding these organisations is that extra members will make decision-making more difficult and reduce their ability to act effectively. But the main reason why the architecture of the international financial system has proved so difficult to reform is that the distribution of global economic muscle only changes slowly. Those catalytic events which expose the weaknesses in the system – such as the Mexican financial crisis – are rare and indeterminate in their impact.

The growth differential between the industrial and developing world is not readily seen but remorseless. Decade after decade, growth in the industrialised world has been slowing. On average, the OECD economies are likely to average growth of only 2 per cent a year in the current upswing, compared with 3.3 per cent a year in the 1980s and 4.3 per cent in the 1970s.

Among the industrial countries, the current upswing has been choppy as well as slow. Growth was relatively strong in 1994, disappointingly weak in 1995, and then accelerated in the first half of this year. For months the international financial institutions and leading industrial country policy-makers have been promising a further improvement in activity in the second half of the year. But well into the second half of 1996 the extent and distribution of this long-promised improvement still remains uncertain.

Sentiment has been particularly volatile in recent months on the question of the strength of the US economy. Moderate growth and weak inflationary pressures had prompted the Federal Reserve to cut official interest rates by a quarter-point to 5.25 per cent in late January. But activity in the first half of the year turned out to be stronger than most analysts expected and by summer speculation about a possible rise in rates flared up or died away as each piece of economic data was released.

Most economists are looking for the US economy to weaken during 1996 and into next year, although divisions among Fed policy-makers testify to the uncertain short-term outlook. Higher long-term market interest rates during the first half of the year should subdue consumer spending and demand for housing but buoyant employment growth and accelerating company profits may result in the slowdown happening less promptly than suggested.

If the US expansion does decelerate – with or without further assistance from the Fed – then the maintenance of a reasonable rate of world growth will require a greater contribution from other regions. This will be all the more important if the US expansion is further undermined by a sharp fall in Wall Street share prices, which on some measures have become perilously overvalued.

The logical candidate to take up the reins of recovery is Japan, which should be rebounding from recession. But in spite of the huge surge in output during the first quarter of the year – inevitably reversed in part during the second quarter – the underlying strength of the Japanese economic upturn remains in doubt.

Worryingly, a fall in business confidence was revealed by August's *tankan*, the quarterly survey of business sentiment. This is the first to take place during an economic recovery phase for 25 years. It is unclear the extent to which this reflects "hollowing out" as manufacturers relocate their activities to other countries or whether it signifies concern about the underlying strength of demand.

For its part, the Japanese government looks to be taking no chances. It has plans in place for a further fiscal boost in the autumn to add to the cumulative 8 per cent of national income already pumped into the economy by the public sector.

Eventually, this fiscal stimulus will have to be withdrawn and it remains to be seen how the economy will respond unaided. Rising business investment suggests that the upswing is becoming self-sustaining, but the Bank of Japan is likely to be hesitant when raising interest rates from their historically low levels.

In almost all European countries fiscal tightening is taking place – accelerated by the targets laid down in the Maastricht treaty for participation in the EU's proposed single currency. This belt-tightening has robbed the upswing in Europe of much of its momentum, although the outlook appears a little brighter. Lower interest rates and rising real household incomes are boosting consumer demand, while export growth gathered pace in the second quarter.

But conditions vary from country to country. Germany recorded strong growth in the second quarter and is now likely to shift down a gear. Activity in the UK and Spain should accelerate, with the looming election in Britain threatening to bring excessively loose policies. The Benelux nations and Scandinavia are also set for healthy expansion.

The biggest question marks hang over Italy and, especially, France. The French economy shrank by 0.4 per cent in the second quarter but should pick up in the rest of the year. Nonetheless, weak growth points to a continuation of the confidence crisis in France with one-in-eight of the workforce unemployed and its achievement of the Maastricht budget deficit target only in sight because of creative accountancy.

All in all, the G7 economies will be lucky to record growth much above 2 per cent this year and next. This should keep inflation subdued, but electorates in the industrialised countries may feel increasingly that they are not being rewarded for the pursuit of virtuous macroeconomic policies. If so, politicians may come under pressure to halt or reverse the assaults on government borrowing which they have made, while central banks may find they have little popular support if they ask for "one last heave" to move from low inflation to price stability.

What the sluggishness of growth in the industrialised countries implies for conditions in the rest of the world is not clear. A recent study by economists at the IMF concluded that the economies of the South have become more resilient to slowdowns in activity in the North. This is largely because of an improved performance by the developing countries of Asia. Their resilience to conditions in the G7 has been strengthened by improved financial linkages, growing intra-regional trade and greater diversification of exports.

But events in recent months have cast doubt on this conclusion. Several Asian economies have suffered a sharp fall in exports, as weaker industrial country demand has helped to trigger a slide in semiconductor prices. Growth has decelerated abruptly in both Singapore and South Korea, where the share of exports accounted for by electronics exceeds a half and a third respectively. Malaysia and Thailand have also suffered, but Indonesia and the Philippines have so far bucked the trend.

In spite of the export slowdown, economists at the Institute of International Finance in Washington still expect growth of around 8 per cent in Asia this year and next. In Latin America, they are looking for growth to accelerate from 3 per cent this year to 4.2 per cent next year. The resumption of growth in Latin America this year largely reflects the turnaround in Mexico and Argentina, with the rate of expansion in most other countries in the region expected to slow. As a result, the developing economies taken as a whole should easily grow strongly enough to continue gaining ground on the industrialised countries. The institute expects 5.5 per cent growth in the major emerging markets next year, the highest rate since 1994.

It should come as no surprise that poor countries have the potential to grow more quickly than rich ones. They are able to grow by adopting established technologies relatively cheaply, while the leading economies have to advance through expensive innovation. But, as Harvard's Professor Jeffrey Sachs points out, developing countries need to be open to flows of trade and investment to exploit these opportunities and catch up with incomes in richer nations.

Openness to trade is often accompanied by privatisation, liberalisation and other reforms. The growth premium enjoyed by the most enthusiastic reformers in central Europe – which are becoming increasingly important both as markets and suppliers of industrial components – is testament to the benefits which can result from them. Looking at central and eastern Europe as a whole, contractions in Russia and Bulgaria are still likely to drag output lower. But this should be followed by a pick-up to 3.3 per cent growth next year.

In contrast, many countries in sub-Saharan Africa have fallen further behind the world's economic leaders. Professor Sachs argues that this is because many of them are relatively closed. Africa's share of world trade has more than halved since 1980 and – excluding South Africa – its share of the developing world's foreign investment inflows has fallen by two-thirds over the same period. Some African countries with large agricultural sectors may do relatively well this year because of plentiful rains, but it is unlikely that this performance can be sustained without further reform and openness.

In asking whether organisations such as the IMF and World Bank are adapting sufficiently to shifts in economic power, the acid test should be their ability to promote the catching up process and to help to narrow the gap between the planet's leaders and laggards. This involves promoting structural reform and sound economic policies, encouraging countries to integrate themselves fully into the global trading system, helping to alleviate unsustainable debt burdens and trying to ensure that the inevitable financial crises which afflict emerging market nations from time to time do not prove contagious. But in spite of their growing economic muscle, the developing countries remain acutely vulnerable to policy mistakes and market upsets in the industrialised world.

Source: World Bank

Export growth slows

Export growth in emerging market economies has slowed this year, in large part because of weaker spending on foreign products by consumers and businesses in the industrialised world.

Export growth has slowed most sharply in central and eastern Europe, for which the main overseas markets are Germany and other big western European economies. The Institute for International Finance expects export growth of only 2 per cent in the region during 1996, down from 24 per cent two years previously.

Asian export growth is expected to have fallen by a third between 1995 and 1996, even though demand for imports remains buoyant in Japan. Robust spending in the US means that export growth in Latin America should decline only a little this year, with strong trade expansion within Latin America also helping.

■ **US:** by Michael Prowse

Fed wins room for manoeuvre

Several more years of steady non-inflationary growth are being predicted

Tbs US economy's recent performance has been almost too good to be true. In this sixth year of the expansion, output is growing at an annual rate of near 3 per cent. The unemployment rate has dropped to almost 5 per cent, close to its lowest level in a generation. The "core" rate of inflation has declined to 2.6 per cent, the lowest in three decades. And the budget deficit – long the economy's Achilles Heel – has fallen rapidly to about 1.6 per cent of gross domestic product, the lowest since 1974.

There are, admittedly, some potential threats to US economic stability. Some analysts worry that the US stock market is seriously overvalued. Given the buge popularity of mutual funds (unit trusts) in recent years, a sharp fall in share prices could undermine the confidence of millions of small investors and cause a dip in consumer spending. That in turn could conceivably tip the economy into recession.

Another concern, more prevalent among foreign investors, centres on external trade. The US has managed to reduce its domestic budget deficit but has made less progress on foreign trade. The current account deficit will be about $150bn (2 per cent of GDP) this year. Much of the shortfall simply reflects faster growth in the US than in the rest of the world. Even so, the seeming permanence of trade deficits has mads some investors nervous about the dollar's long-run prospects.

A third worry is that inflationary pressures are building in the labour market. Tbe growth of average hourly earnings has risen steadily since 1993. And the broader employment cost index (which includes fringe benefits) has also increased sharply in recent quarters. Some analysts fear that thess wage pressures will result in significantly higher inflation next year or in 1998.

The consensus view, bowever, is that the Federal Reservs is well placed to respond to any of these threats. If s shock such as s crash in share prices were to undermine consumer confidence, the Fed could respond by cutting interest rates sharply. If, on the other hand, inflation started to rise faster than expected, it could raise rates rapidly.

The fact that the economy is well balanced, with both inflation and unemployment at remarkably low levels, gives the Fed greater room to manoeuvre than is usually enjoyed by central banks. It is partly for this reason that many forecasters are projecting several more years of steady non-inflationary growth. Tbe conventional wisdom is that growth of about 2.5 per cent, inflation of sbout 3 per cent and s jobless rate of 5-6 per cent can be sustained until near the end of the decade.

Confidencs in the economy's stability has been enhanced by events of recent months. Early this year some economists were warning of an imminent recession. Growtb had slowed sharply at the end of 1995 and seemed weak in the first quarter. But it proved a false alarm. Supported by a modest relaxation of monetary policy, GDP expanded at an annual rate of 2 per cent in the first quarter and by a surprising 4.8 per cent in the second quarter, producing average growth of 3.4 per cent in the first half.

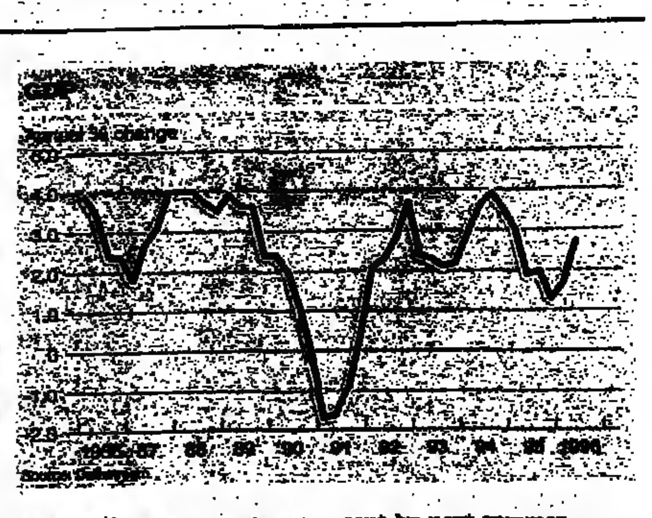
Analysts promptly began to worry that growth would be excessive and put upward pressure on inflation. Such fears were exacerbated by a tightening of labour markets. Growth of non-farm employment has increased steadily: monthly gains have everaged 260,000 since the first quarter, sharply above the pace of last year. As a result the jobless rats has fallen sharply – to an average of 5.3 per cent in the past three months and only 5.1 per cent in August. This is well below the conventional estimates of the level of unemployment consistent with non-accelerating inflation – the so-called NAIRU.

Yet these signs of apparent "overheating" have been offset by weaker than expected consumption spending. Retail sales failed to rebound last month after softness in June and July. So far in the third quarter retail sales have grown at a real rate of about 0.5 per cent. Although the figures are volatile and frequently revised this suggests real consumer spending might expand at an annual rate of perhaps 1.5 per cent, against 3.5 per cent in the first half.

Since production and employment tend to react to variations in spending, rather than vice versa, this suggests economic growth could slow in the second half, as the Fed and other forecasters have long predicted. This would represent a continuation of the pattern of recent years in which strong and weak quarters have been "statistical noise" - random fluctuations around a trend growth rate of about 2.5 per cent.

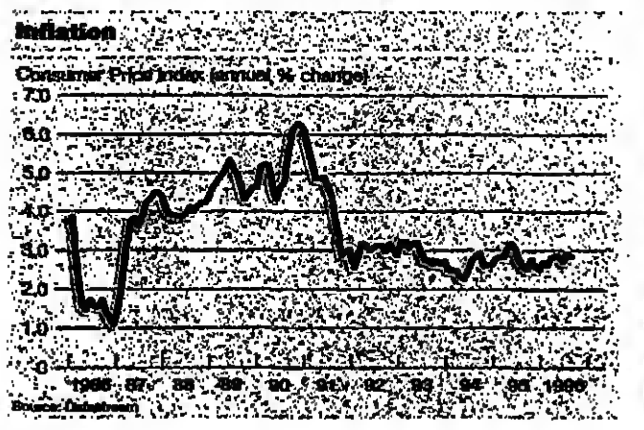
But although a modest slowing of growth seems the likeliest prospect, few economists believe the Fed can afford to ignore the risk of higher inflation. The jobless rate has been below conventional astimstes of the NAIRU for about two years and it is still falling. Even allowing for structural changes such as tougher competition brought about by the "globalisation" of economic activity, it would be prudant to expect upward pressure on inflation before long.

Given that monetary policy acts with a lag of up to 18 months, this means that the Fed needs to act soon to be sure of heading off incipient inflationary pressures.



Expectations among economists vary considerably. Some analysts believe a single quarter point increase in short-term rates might be sufficient in today's competitive climate. Others argue that a ssries of rate increases is all but inevitabls and predict that sbort rates will rise to 6 or 7 per cent by next summer.

What is striking is that hardly any analysts perceive a need for more than a fairly minor course correction. This is a testament to the remarkable success of US economic policy in the 1990s, which is so far proving a far less turbulent decade than the 1970s or 1980s.



■ **Exchange rates:** by Philip Gawith

Victory for central banks

Economic convergence is producing more stable currency markets

Central banks have staged a remarkable comeback on the world's foreign exchanges. In the 1992-5 period, their fortunes were at a low ebb. They were seemingly powerless to resist speculators who first wreaked havoc in the European exchange rate mechanism, and then later pushed the dollar to record lows in 1995.

Since then, the picture has changed. There has been no instance of concerted central bank intervention in the foreign exchange markets to inflnence the value of the dollar since mid-August 1995. You have to go back nearly ten years to find a longer period when the central banks were absent from the scene.

The historic volatility of exchange rates has fallen sharply over the past year. Current levels are well below the average for the past five years, and in many cases are at the lowest levels in a decade.

For foreign exchange traders, who thrive on volatility, this is all a dastardly plot, conjured up by the world's central bankers to clip their wings. They speak confidently of enhanced levels of co-operation between central banks, aimed at ensuring currency stability.

The denizens of the world's money would doubtless love to agree, but they know the truth is more mundane. Just as it is wrong to blame them for volatility, which is inevitably the product of some combination of political and economic events beyond their control, so it is wrong to offer them all the praise for the present calm.

The most powerful explanation for this decline in volatility is also the most simple: quiet currency markets reflect convergent economics. Inflation is much lower in leading economies, and external imbalances much smaller, than in the past.

Ths Japanese current account surplus, for example, is close to 1 per cent of GDP, compared with 3 per cent previously. Governments are also generally more committed to fiscal discipline – assisted, in the case of Europe, by the strict demands of trying to meet the convergence criteria of the Maastricht treaty on economic and monetary union.

The upshot is that with key macro-economic fundamentals less divergent, there is less need for exchange rate adjustment.

Diminished volatility can also be a function of the interchange between politicians and investors. Again, the Maastricht experience is instructive. Investors have, as of now, accepted that the political will to achieve the Maastricht timetable is unstoppable, and positioned themselves accordingly. It is this that has produced convergent bond yields and lower currency volatility in Europe, not the actions of central banks.

Another factor influencing currency trading is the increasing use of options. There is little evidence for the view that activity in the options market dictates the direction of the spot price of an exchange rate, except over the very short term. But there is considerable evidence that options activity can affect the nature of exchange rate moves, often making them quicker and more dramatic. It is a widely held view that foreign exchange markets are now characterised by shorter, sharper moves, followed by longer periods of calm, than in the past when trends appeared to be slower and more enduring.

While economic fundamentals provide most of the explanation for lower volatility, central banks and finance ministries have also played a part. For their part, central banks have clearly become more savvy in their market dealings. They have a better understanding of how markets move, including the influence of instruments such as options, and hence are better placed to know how and when to intervene to maximum advantage.

Central banks have staged a remarkable comeback

Finance ministries' influence is felt most in terms of how they address fiscal policy. But sometimes personalities can also play a part. There is no doubt that the dollar's rally from Y80 to Y110 was much helped by the market's view that Robert Rubin, the US treasury secretary, and Eisuke Sakakibara, the senior international official at Japan's ministry of finance, were co-operating closely to achieve a stronger dollar.

This view was not without substance, but was embellisbed by the markets. Rubin's credibility was much enhanced by his status as a formsr partner of Goldman Sachs, ths US investment bank, whila Mr Sakakibara was represented as being easier to do business with than the typical Japanese bureaucrat. These factors, coupled with the market's firm belief that some sort of special Rubin-Sakakibara axis existed, made efforts to achieve a strong dollar much more effective.

The question wbicb remains is whether central banks have only wrested the initiative temporarily from cnrrency markets, or whether they have established a more enduring hegemony, introducing a new era of low volatility. This seems unlikely. Big moves are still possible – witness the quick recovery in the dollar from Y80 to Y110. And nor is volatility dead - in March 1995 dollar options volatility doubled in four days.

The halcyon days of the 1992/3 ERM turbulsnce, whsn central banks appeared literally to bs delivering money to the doors of banks and speculators, look to bs past, but short of abolishing the business cycle and political risk, exchange rate fluctuations look here to stay.

■ Global capital flows: by Barry Riley

Free flow of finance

Vast sums are available to be channelled into attractive opportunities

Capital nowodsys flows around the world with greater freedom than at any time since the golden age of emerging economies and economic colonialism in the period before the second world war.

Immense sums have recently been flowing, for instance, between the US and Jopan. Lesser amounts have been flowing into today's emerging markets – but economically they may prove to be of greater significance thon the transfers between the great powers.

There is, however, a fundomental problem of poor quality statistics; published numbers tend to be late, inconsistent and full of gaps.

There is a rapidly-growing offshore pool of capital attributable to secretive private money and hedge funds. So, any analysis of what is going on has to be limited to broad themes.

In the 1970s, banks were prominent in the transfer of capital around the world, so that in the heyday of petrodollar recycling the international bonks controlled about half the cross-border movements of capital.

These days, however, the role of the banks is considerably smaller – although according to the Bank of International Settlements net international banking lending picked up from $190bn to $315bn last year.

An increase in lending to Asian countries was the main factor here – although Thailand's emergence as the leading bank debtor has become a subject of some concern recently.

Elsewhere, direct corporate activity, including direct investment and acquisitions, has become fairly important. But portfolio investment in bonds and equities has become tha dominant factor, usually accounting for more than half of private sector capital outflows from the leading industrial countries in recent years.

From time to time official purchases of bonds can also become important, reflecting foreign exchange intervention, as in the period of massive manipulation of the dollar-yen exchange rate during 1995 and the early part of this year.

All of these flows involving securities tend to be extremely volatile. They are sensitive to the short-term swings between bull and bear markets, and to the fluctuations in national balances of payments.

Some of the flows are indeed based purely upon short-term speculation. For instance, an important feature of 1996 so far has been the torrent of largely American money flooding into Japanese equities.

These inflows totalled some $14bn during the first half of 1996, apparently on the view that the yen would weaken against the dollor and the Japanese corporate economy would rapidly revive. The gamble has yet to pay off, however.

Because Japan is running a consistent – although declining – balance of payments surplus, currently of some $100bn a year, these inflows into Tokyo equities are not in any way required to finance current occount imbalances in Japan. Indeed they have made official recycling more urgent and have triggered compensating central bank purchases of US Treasuries.

In fact, for many years international investors have been large-scale investors in US bonds – both treasuries and corporates. These purchases, typically of $50bn to $100bn a year, have been linked to the persistent need for finance for the stubborn US balance of payments deficit of about $150bn a year.

Last year, however, these foreign flows into the US bond market jumped to a peak of some $220bn. It seemed that normal private sector flows were being supplemented by the investment of immense sums in US Treasuries by south-east Asian central banks after the conversion of yen into dollars.

Indeed, the vast flow of foreign money into US domestic bonds was an important factor which encouraged the Wall Street stock market boom last year.

Central bank intervention is normally drivan by strongly political motives, but private sector portfolio investors usually have specific professional objectives.

In bonds they are seeking currency strength and high yields, in relative terms anyway, whereas in equities they are looking for diversification, cyclical patterns and – something that especially applies to the emerging markets - for growth.

US pension funds, for instance, have been embarking on a programme of international diversification. This slowed down last year while Wall Street was booming but according to this year's survey by the US consultants Greenwich Associates the overall exposure of US tax-exempt institutions to overseas equities is likely to rise from 8.7 per cent in 1995 to more than 11 per cent by 1998, implying outflows of some $25bn a year.

Bond and eqnity flows tend to be quite different. There was scarcely any foreign buying of US equities last year, for instance, in sharp contrast to what was going on in bonds, while the recent heavy buying of Japanese equities has not been matched by bond purchases.

There are strange anomalies. Foreigners were big buyers of German bonds last year – to the tune of some $60bn – but they have been net *sellers* of French bonds. This is because French bond yields have been driven down to what are, to foreign investors, unattractive levels thanks to tha tax breaks available to domestic French investors when they buy government bonds through life assurance policies.

Emerging markets show some of the most volatile flows of all. A record $62bn of international money boosted the emerging equity markets back in 1993 but after setbacks in Hong Kong, Mexico and elsewhere this figure had slumped to $15bn-$20bn by 1995. This year, howaver, it is heading up again – perhaps to $40bn-$50bn according to Michael Howell of the strategy boutique CrossBorder Capital.

There has also been a surprising rogue boom in emerging market dabt – including such exotic securities as Brady bonds. It seems there is a growing taste for risky debt securities.

Investors who will tolerate risk in the chase for return on stocks or bonds have plenty of new scope in China and eastern Europe, whila India is opening up, too. But the glamorous emerging markets atory has been dented by economic and political setbacks in important Asian countries such as Korea, Thailand and Indonesia.

Vast sums are now available to be channelled into attractive opportunities. But this is fickle money, highly sensitive to the least signs of trouble. The grass does not *always* seem greener on the other side of the border.

Net cross-border equity flows by markets ($bn)

	1992	1993	1994	1995	1996E*
US	-4.1	24.3	1.8	11.2	-10.0
Europe	25.5	68.5	29.1	17.0	30.0
Japan	8.9	20.4	45.5	51.1	30.0
Emerging markets	21.2	62.4	39.9	18.7	50.0
Rest of world	2.2	20.7	3.3	2.0	5.0
Total	53.7	196.3	119.6	100.0	125.0

Source: CrossBorder Capital

* E = estimate

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■ Japan: by Gerard Baker

Hopes rise, then fall again

The expected bounce back from recession has not happened despite encouraging signs

More than four years after it slipped into its most severe recession in the post-war period, Japan is still awaiting incontrovertible evidence of a sustained recovery. Several times in the past few years the economy has seemed poised to bounce back from its stagnation. But in 1993 and 1994, a resurgence in demand proved transitory and the economy slid back towards slump.

This year has produced tha most encouraging evidence of recovery yet. In the first three months of the year, gross domestic product expanded at an annual rate of 12.7 per cent, the fastest rate of growth for more than a decade. Though no-one believed that pace would prove sustainable, it did at least appear probable that the economy had at last picked up sufficient momentum to keep the recovery moving.

Indicators for the second quarter have indeed shown a drop in output but, even so, the overall performance in the first half of the year pointed to a much stronger performance from the economy than at any time since the late 1980s – with overall growth at an annual rate of about 5 per cent.

The good news sent independent economists scrambling to upgrade their forecasts. The consensus shifted from a somnolent 2 per cent or so, to a perky 3 per cent plus. Even the normally much more cautious policymakers felt emboldened to call an end to their customary saturnine view. "Economic recovery is gradually gaining momentum in a wide variety of sectors," was the official Bank of Japan view in the summer.

Then doubts began to seep between the cracks in the self-confidence. The slowdown in the second quarter seems to have continued in the third; the stock market has dipped sharply on a loss of confidence. And last month came troubling evidence of the source of that waning optimism. The Bank of Japan's quarterly survey of short-term economic prospects showed the first deterioration in business confidence for a year among large manufacturers.

Once again, there is now real uncertainty whether the economy can maintain its growth momentum. The specific concern is that the bulk of the improvement in output so far has come from a succession of big fiscal stimulus packages. As the government's financial position continnes to deteriorate, there is a limit to the amount of stimulus it can continue to give.

The biggest of these packages came at the turn of last year as part of a series of measures worth an estimated Y14,000bn in extra spending. That injection was reflected in the first quarter jump in outpnt. The hope was that the jolt given would be enough to propel the rest of the economy back on to a higher growth path. Yet there is still scant evidence that any of the main components of private sector demand has been able to take up the baton of expansion from the government.

Hopes for a consumer boom have proved largely misplaced. Though personal consumption rose by 5.1 per cent year on year in the first quarter, helped by an upturn in pay and tax cuts, the improvement tapered off in the second quarter. Fear of unemployment continues to undermine confidence – the jobless total reached a record 3.5 per cent earlier this year. A consumption tax increase next year will further dampen spending, and in the medium term Japanese households' traditionally high propensity to save shows no sign of diminishing.

There is some evidence of an improving investment climate. Capital spending rose by 2.9 per cent in 1995, the first rise in four years, and the evidence for the first half of 1996 suggests a further rise. But that followed a strong recovery in profits last year. The ontlook for corporate profits is now much weaker, a factor likely to weigh heavily on investment plans. Capital spending is expected to slow markedly in the next year.

The external balance continues to be a drag on output, affected by the long and steep appreciation of the yen in 1993-5. Though the Japanese currency has now fallen by more than 30 per cent against the dollar in the past 18 months, that improving climate for exporters is not expected to be reflected in balance of payments figures for another year or so. Between mid-1995 and mid-1996, the trade surplus dropped by 40 per cent, as imports rose sharply and exports were flat.

The pressure is therefore still on macro-economic policy to insure against further stagnation. But there is a further snag.

The scope for further fiscal stimulus to assist the private sector is gradually running out. The combination of extended tax cuts and extra spending in the past few years has produced the largest fiscal deficit for more than a decade. This year the total public sector deficit is likely to be about 7 per cent of GDP.

That still leaves monetary policy. But here, too, there is little more tha authorities can do. The Bank of Japan cut its official discount rate to an historic low of 0.5 per cent a year ago and has held it there ever since. Reducing the cost of money to near zero has still not had a significant effect on credit creation, as Japanese banks remain cautious after their disastrous losses of the past five years. Though inflation remains moribund, with just a slight increase in prices in the past year, no-one expects the central bank to loosen policy further.

The Japanese economy may yet prove to have enough momentum to avoid a further downturn. But hopes of an early bounce back from the slump of the past few years have been confounded again. The more likely probability in the short- and medium-term is of a slow, uncertain pace of recovery, far removed from the era of the Japanese "miracle" of the post-war years.

■ The euro in the foreign exchange markets: by Philip Gawith

Minimal impact

Excess funds could be transferred back to national treasuries

While the advent of economic and monetary union in Europe remains uncertain, the working assumption of most market participants is that it will take place, even if some delay is involved, and the number of initial participants is small.

What will the impact be on the foreign exchange market? What sort of currency will the euro be? These types of questions are increasingly occupying the minds of analysts.

From a trading perspective, the likely impact is small. Intra-Emu trading will disappear, but this will not have much effect. Only a few countries will participate from the outset, and the amount of foreign exchange trading between them is not large. Only D-Mark/French franc trading will be a significant casualty (it is agreed that there will be no Emu to speak of if France is not involved) and according to the 1995 Bank for International Settlements survey, only 6 per cent of spot turnover in the foreign exchange market involves this currency pair.

Banks have already been redirecting resources away from intra-Europe currency trading towards emerging market currencies, and this process is set to continue. It is quite plausible that as their economies grow and liberalise, currencies such as the Czech koruna and Polish zloty will fill the gap left by the currencies that are subsumed within the euro.

The trickier question concerns the likely characteristics of the euro. On the one hand, most traders believe it will be an inferior, contaminated version of the D-Mark. There is scepticism about the extent to which the new European central bank (ECB) will be able to fill the shoes of the Bundesbank. There is also a suspicion that the inclination will be towards an easier monetary policy and a weaker currency, especially given the high prevailing unemployment in Europe, and large regional growth disparities.

However, such pessimism appears misplaced for two reasons. First, in the early days at least, the monetary union is likely to embrace a small group of fairly homogeneous northern European countries. Only later will the complications attendant on the entry of countries such as Italy and Spain have to be faced. Second, the ECB will be aware that it needs to assert its authority at the outset.

Gerd Hausler, a former Bundesbank director, said recently that the ECB "might have to follow a fairly tough interest-rate policy early on in order to counter any speculation as to its possible cowardice".

The more intriguing issue is that of foreign exchange reserves – their volume and composition. Once Emu is established, foreign exchange reserves held in participating EU currencies will be re-denominated as euros (the local currency) and thus cease to be available for intervention purposes.

Avinash Persaud, currency strategist at JP Morgan in London, reckons that about $50bn, or 25 per cent of the current total, will "disappear" into euros in this way.

But once this has taken place, there is a strong chance that the ECB will still wish to reduce further its remaining, mostly dollar reserves. There is a strong relationship between the size of a country's foreign reserves and the level of its imports. Yet around 40 per cent of imports from the countries likely to participate in Emu come from those same countries. These flows, therefore, which currently involve foreign exchange deals, would take place within the single currency. As such, the ECB would need fewer foreign exchange reserves than the sum held by its constituent members.

The ECB will probably want to lower the level of excess reserves. Fiscally-strapped governments are sure to feel there are good uses to which some of this capital can be put. And it can be argued that transferring excess reserves to national treasuries will ultimately help bolster the euro if these reserves are helped to put the euro economic area on to a sounder footing. That said, the ECB is sure to proceed cautiously, if only because hefty reserves will augment its credibility in the early days of its operations.

Also relevant is the role of the euro in non-Emu central bank reserves. The composition of reserves is largely determined by the proportion of trade and investment invoiced in different currencies. Mr Persaud points out that central banks would want to increase their allocation of euro reserves if its role as an invoicing currency is greater than the sum of its constituent parts. This is quite possible, with the dollar an illuminating example.

Around 13 per cent of world exports come from the US, but 48 per cent of world exports are invoiced in dollars.

If the euro acquires favour as a vehicle currency, then it can be expected to play a role in central bank reserves disproportionate to the 17 per cent of global exports which emanate from the European core.

None of these posited changes is likely to happen fast. Central banks are, if nothing else, guardians of stability. They will not set in train changes likely to foster market instability. Markets, too, can be conservative animals. They will not be giving the ECB anything on trust. The euro will have to earn its stripes, and that takes time. But if credibility concerns and policy dilemmas place an initial downward emphasis on the euro, the structural effects of its introduction look likely to exert a countervailing effect on the dollar. As a recent study by SBC Warburg concluded, "the implications for foreign exchange markets are minimal".

■ Germany: by Peter Norman

Good progress on reform path

The big question is whether Germany can meet the twin challenges of Emu and globalisation

After a bleak 12 months of minimal growth and sharply rising unemployment, there is a hope of better times ahead for the German economy.

Gross domestic product grew by a strong seasonally-adjusted 1.5 per cent between the first and second quarters of this year while the Bonn government is making slow but steady progress towards implementing a wide-ranging programme of spending cuts and structural reform that is intended to make the country better able to compete.

But it is far from clear whether Germany will be fit enough to meet the Maastricht criteria for European economic and monetary union in 1997 and so help launch the project on January 1, 1999. Even more uncertain is whether Helmut Kohl's coalition government will be able to realise the chancellor's ambitious goal of halving unemployment from the present 3.9m, or just over 10 per cent of the labour force, by 2000.

The conditions for a short-term cyclical recovery have improved. The sharp upvaluation of the D-Mark, which helped slow growth in 1995, has been largely reversed. Wage settlements, another cause of slowdown last year, have been modest at below 2 per cent. Prices are virtually stable as evidenced by a year-on-year inflation rate of 1.4 per cent in August. Interest rates are low. The Bundesbank cut the securities repurchase (repo) rate, which determines short-term money market rates, to 3 per cent from 3.3 per cent in August. Longer term rates, which are of importance for investment, are significantly lower than in the US.

But the German economy has deep-seated problems that cannot be solved by a simple upturn in the business cycle. Labour costs are among the highest in the world thanks to a combination of high and rising levies for health, unemployment and pension insurance, long holidays, generous fringe benefits and an unenviable record of high absenteeism on grounds of illness. A generous welfare system means the state gobbles up and redistributes more than 50 per cent of GDP. A bewilderingly complex and unfair tax system levies heavy burdens on ordinary wage earners while often enabling the wealthy and well advised to escape scot-free. Half of Hamburg's millionaires pay no taxes, according to Henning Voscherau, the city state's governing mayor.

Six years after unification, Germany is still struggling to assimilate the former communist eastern Germany. Production in the new Länder covers only two thirds of the region's consumption. In spite of DM700bn of transfers from the west since the two economies were merged, unemployment in the east affects around 15 per cent of the labour force. This is the official figure: a further 7 or 8 per cent are kept off the jobless register through government employment creation schemes which Bonn now wants to scale back.

High costs and economic rigidities at home have encouraged businesses to embark on a programme of foreign investment. To some extent investments such as car plants built by Mercedes Benz and BMW in the US have helped boost Germany's merchandise exports. But sluggish investment at home and a marked lack of foreign direct investment in Germany have alerted the government to the country's dwindling attractions as a base for production in an age of globalisation.

After much hesitation, Mr Kohl's government is taking serious steps to improve Germany's economic potential. In January, the government published a 50-point programme of supply side measures designed to spur entrepreneurial activity, reduce non-wage labour costs and encourage competition through deregulation. It also pledged a reform of business taxes this year and an overhaul of the income tax system to take effect in 1999.

In April, after important state elections were out of the way, it produced its "programme for more growth and jobs". This fleshed out the 50-point programme of January with plans for cuts in welfare entitlements, greater flexibility in the labour market and DM70bn of spending cuts in 1997 to be carried out by the federal government, the Länder and state social insurance funds.

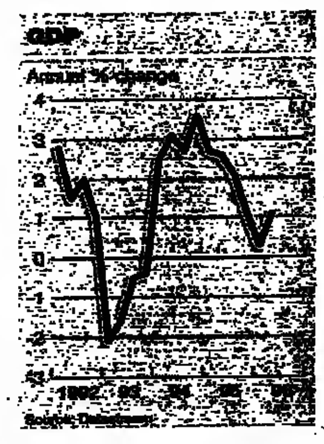
An important spur to government activism was Germany's failure last year to meet the Maastricht deficit criterion for Emu. The discovery late in December 1995 that Germany's government deficit would exceed 3 per cent of GDP was a profound shock for Theo Waigel, the finance minister, and Germany's political class. It now appears that the deficit will exceed last year's 3.5 per cent of GDP, with the Bundesbank predicting that it could be as high as 4 per cent.

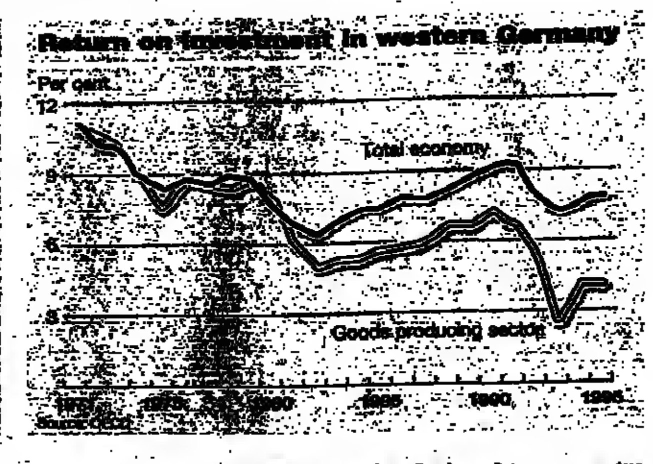
Both the Bundesbank and the Paris-based Organisation for Economic Co-operation and Development have told the government that it must push through its economic reform programmes in full if it is to bring the deficit below 3 per cent next year and so qualify for Emu in early 1998.

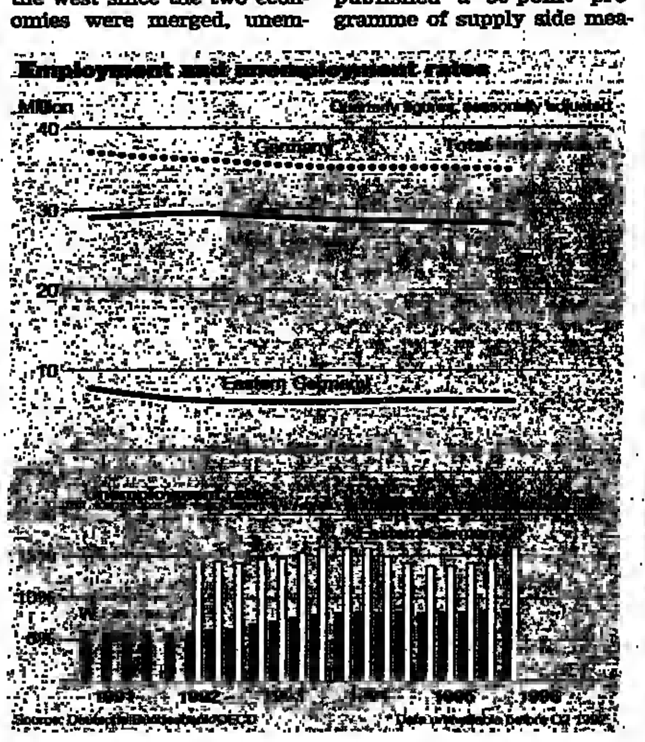
This is what Messrs Kohl and Waigel are now trying to do. Parts of their programme, such as reducing sick pay to 80 per cent from 100 per cent of previous earnings or the relaxation of job security in small firms, provoked howls of protest from trade union and church leaders. The fact that the Länder controlled by the opposition Social Democratic party have a majority in the Bundesrat, the second chamber of the Bonn parliament, has not helped. The Bundesrat can block legislation that directly affects the federal states and delay other laws.

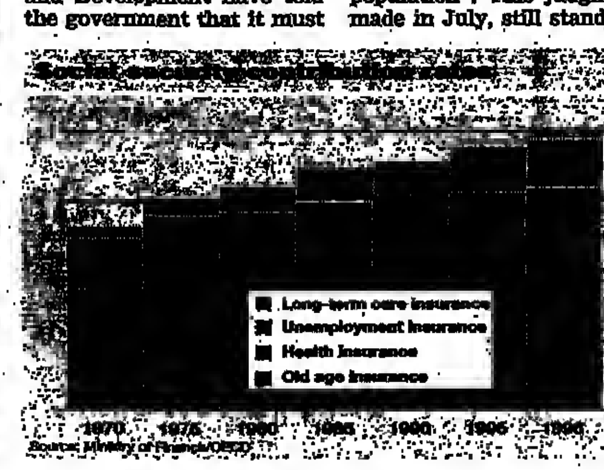
But Mr Kohl is doggedly making headway. A law to curb early retirement, which had become a significant factor pushing up pension fund contributions for employers and employees, took effect in August. Bills to liberalise shopping hours and the telecommunications market became law in July. On September 13, the most controversial parts of the government's social retrenchment programme cleared their final parliamentary hurdle when Mr Kohl obtained an absolute majority in the Bundestag for the cuts in sick pay, the reduced job protection in small firms, cuts in health service entitlements and an increase in the retirement age for women.

Set against Germany's problems, the government's response so far has been the minimum necessary. In its annual report on Germany, the OECD wrote that Bonn's programme "represents an important step in the right direction, but needs to be implemented in full and will probably require reinforcing if the German economy is to exploit the full potential of a well-qualified and motivated population". This judgment, made in July, still stands.









PROFILE Robert Rubin, US Treasury secretary

Banker with a calm touch

Even critics of the Clinton administration find themselves secretly admiring Robert Rubin, the US Treasury secretary. He became a multimillionaire as a Wall Street investment banker and now holds one of the highest offices of state. Yet there are few traces of pride or arrogance in his manner.

His calm, rational approach to economic problems has generally paid dividends – while making few enemies. He gained political plaudits last winter for his adroit handling of the budget fight with Newt Gingrich and the House Republicans. On several occasions he took the apparently risky step of warning of an impending default on US bonds.

This did not frighten financial markets (which knew that an old Goldman Sachs hand would do anything to avoid a real default). But it did rattle the financially inexperienced Republicans who were eventually out-manoeuvred by the White House.

He has weathered several currency storms, arguing in his laconic fashion that the US's policy in foreign exchange markets was to intervene when it made sense and not otherwise. This sounded anodyne but did not prevent him outwitting speculators on at least one occasion. The dollar is not yet a "hard" currency but Mr Rubin has earned a certain respect in the currency markets.

He also put together a massive financial rescue package for Mexico in early 1995. On this occasion, Mr Rubin's persuasive pragmatism may have helped sell a policy that was economically dubious. The risk of "contagion" effects was much smaller than the Treasury claimed: Mexico and its creditors could probably have reached a private settlement without provoking a global financial meltdown. And the precedent of a public bail-out would not have been set.

He pushed hard for measures to reduce the budget deficit in 1993 and claims that without fiscal retrenchment the economy would not have recovered from its "morass" of the early 1990s. This is a bit of an exaggeration: a strong business cycle upswing was already under way before President Bush left office. Nevertheless deficit reduction helped rather than hindered the recovery.

Today, Mr Rubin can point to a record on economic growth, inflation and unemployment that leaves his G7 counterparts deeply envious.

But there is a flaw in the US's record under Mr Rubin that is only too evident to foreign observers: the large trade deficit. The US has run an external deficit every year since 1976 and it is getting bigger again. The current account deficit this year will be about $150bn, or 2 per cent of national income. Can it be right for a mature economy to import capital on this scale over so long a period?

Mr Rubin does not contest the issue. "Look, we should have a higher savings rate," he conceded in an interview. But he went on to argue that, in his view, the low savings rate relative to other countries was largely a "cultural phenomenon" – and thus hard to alter. He had looked at tax reforms to encourage savings but most economists, including his deputy Larry Summers, had told him the savings rate was "relatively indifferent to the after-tax return on savings". The benefits from a shift, say, to a tax on consumption rather than income, thus looked too uncertain to justify the "monumental transitional problems".

With the exception of the savings/investment balance, however, Mr Rubin can claim the economic numbers have moved in generally the right direction. The soft-spoken former investment banker has every reason to be proud of his record on unfamiliar political terrain.

Michael Prowse

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Models of transition – China and Russia compared: by Stephanie Flanders

Contrasting roads to the market

The two giants offer valuable lessons to emerging countries

"The contrast in the outcome of the reform process in the two giants of communism has arguably been the most important event in international political economy in the last quarter of the 21st Century... (it) will have consequences that will resonate well into the next century". – Peter Nolan, "China's Rise, Russia's Fall", Macmillan, 1995.

For much of the post-war era the only people who spent much time looking for differences betweeo China and Russia were cold warriors in the Pentagon. Most others saw only what the two had in common; they were vast nations, closed off to the rest of world, run by Communist central planners.

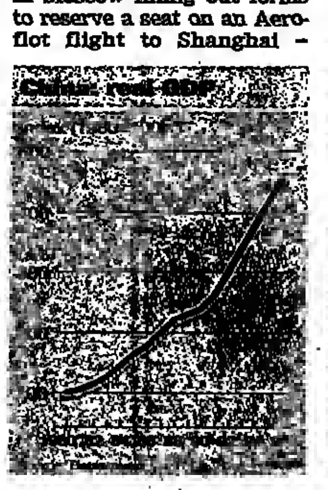
These days the differences between China and Russia attract more attention. Both countries have turned away from central planning, opening up the ecooomy and embracing market reforms. But, while China has been the world's fastest-growing economy since reforms began in 1978, Russia has spent most of its seven year-old transition coping with deep recession and high inflation. Russia could record positive growth in 1996, but it will be the first time since 1989.

Debate has raged among economists over what explains this stark contrast. But the answer has implications well beyond academia. No-ooe believes that Russia could, or should, now attempt to retrace its steps. But for other governments now contemplating sweeping economic reforms, China's more gradual reform path, introdncing the market to some sectors of the economy sooner than others, has seemed an attractive alternative to Russia's painful, rapid moves to the market.

This makes it important to understand why China's transition to the market has so far been so much more successful than Russia's. And to know whether China has in fact avoided the pain experienced by many other transition countries, or simply deferred it.

Some argue that differences between China and Russia before reforms are far more important for explaining their recent performance than the contrast in reform strategies. While acknowledging the achievements of Chinese reformers, they believe that the transition was much easier for them because China had pursued central planning for a shorter time than Russia and was a mnch poorer country at the start of reforms. But for such "Chinese characteristics" the gradual approach would have been much less successful. Indeed, several countries, including Russia, had tried such a strategy before 1989 – with meagre results.

This rings true for anyone who has seen the contrast between Russia and China first-hand. One westerner based in China was shocked by the resilience of old-style retailing and business practices in Russia during a recent trip to the country. "Everywhere I went, the stolid, bureaucratic mentality seemed much more deeply ingrained than in China," he says. "I spent an entire morning in an office in Moscow filling out forms to reserve a seat on an Aeroflot flight to Shanghai –



Structural differences before reform

Indicator	Russia 1990	Russia 1994	China 1978	China 1994
SECTORAL STRUCTURE OF EMPLOYMENT (% of total)				
Industry	42	38	15	18
Agriculture	13	15	71	58
Services	45	47	14	25
Total	100	100	100	100
Employment in the state sector	90	44	19	16
MONEY AND OUTPUT				
M2 as a percentage of GDP[1]	100	16	25	89
GDP per capita ($) from World Bank Atlas	4,110	2,650	404[2]	530
At PPP[3]	6,440	4,610	1,000[2]	2,510

[1] Data are averages of quarterly ratios; [2] In 1990 dollars; [3] Purchasing power parity
Source: World Bank, World Development Report 1996

until I realised I could get on an Air China flight with a five-minute phone call."

Russia was a highly industrialised economy in 1989, with a per capita GDP eight times higher than China. Around 40 per cent of the work force was employed in industry. All but 10 per cent of workers were employed directly by the state, and nearly all of the population were supported by elaborate subsidies and benefits.

In China, by contrast, less than 20 per cent worked for state-owned industries, and therefore part of the formal state benefit system. The bulk of the population was on the land – many living on the edge of subsistence. This meant that, by freeing up agriculture, the Chinese government could raise productivity and living standards for most of the population, without forcing income and employment losses on the protected, state industrial sector. The same policy of avoidance was simply not an option for Russia.

The Chinese economy had been made poorer by the bouts of social and economic chaos suffered under Chairman Mao, which had taken their toll on the command system. "People say the Chinese have paid a smaller price for market reforms than in other transition countries", says Chenggang Xu, a Chinese economist. "But the truth is that they paid a huge price, they just paid it much earlier, during the Great Leap Forward of the 1950s and the Cultural Revolution of the 1960s and 1970s."

Mr Xn argues that these two disasters made the "gradual" reform route possible because, well before 1979, they had drastically reduced planners' ability to control all aspects of the economy from the centre. Indeed, it was the failure to revive such control, under the anspices of the over-ambitious 10-year plan of 1978, that set the backdrop for the leadership's turn towards reform at the end of that year.

Regional decentralisation, coupled with the sheer size of the country, meant that the Chinese government could use local experiments to build market competition between regions gradually. The reformers could thus raise growth and efficiency, without having to overturn the entire command system in one stroke, or introduce much tougher, external, competition through full-scale liberalisation of trade.

By contrast, small transition countries snch as Poland could only introduce effective competition through comprehensive lifting of price and trade controls. As a large country, Russia might, in principle, have avoided such extreme measures. But in practice this was ruled out by the fact that Soviet planners had built up a system of intense specialisation, binding regions together through a complex system of inter-regional trade. The result was "one company towns", many of which are languishing today as a result of the death of their one industry.

Those who doubt that the Chinese approach would have succeeded elsewhere like to point out that gradualism has been much less successful in those parts of the economy where the command system was further developed at the start of reforms. By and large, reform of the highly inefficient state enterprises and banks has been painfully slow.

It is not that the Chinese reformers did not recognise these problems. Barry Naughton, an economist at the University of California and anthor of a detailed recent account of Chinese reforms*, points out that some of the most significant reforms of the late 1970s were in the state enterprise sector.

Mr Naughton says that these early efforts tend to be overlooked in Chinese accounts of the early transition because they were so mnch less successful than reforms elsewhere.

Government leaders balked at pushing through measures, such as comprehensive price reforms, which would have imposed heavy adjustment costs on state workers.

Yet for fans of the Chinese strategy, such pragmatism has been the government's greatest strength. Discuss the reforms with officials and economists and, likely as not, they will tell you that the secret of China's success has been experimentalism. In their view, Deng Xiaoping's 1978 addendum to the Maoist dictum to seek truth from facts – that one should make practice (not dogma) the sole criterion of truth – nshered in a period in which the centre allowed local officials to try almost anything once.

Shanghai: China has been the world's fastest growing economy since reforms began Picture: Sarah Murray

"The experiments that caused problems at the centre were abandoned," says a western official in Beijing. "While the others survived to boost living standards and give local officials a vested interest in further reform." The same observer accepts that structural factors helped the Chinese a lot. "But the reformers must have done something right – or the Chinese economy would have been growing just as rapidly before 1978."

For all the nuance of interpretation, most agree that Russia's fall – and China's rise – during the transition period has been due to both the initial conditions before reform and the choices made afterwards.

The Chinese had the advantage of being able to deliver immediate gains from early, partial reforms. Equally, given the Communist government's continued hold on power, it could police the borders between newly marketised sectors and controlled ones as the economy "grew out of the plan".

Neither condition held for Russia during the turbulent early years of reform. But the deftness of Chinese reformers – and mistakes made in Russia during the early 1990s – certainly magnified the gap between them.

Which brings us to a final Russian disadvantage in comparisons with China. Critics claimed during the early years of Russia's transition that the government was implementing an orthodox programme of painful "shock therapy". But in retrospect, its policies seem less coherent.

Indeed, many now argue that the failures of the early years of Russian reform were the result of the government's inability to follow any reform strategy consistently, whether gradualism or shock therapy.

Conversely, the Chinese reform experiments seem now to add up to a consistent "reform model", but Mr Naughton says that it did not seem so at the time. "One of the reasons China's reforms were gradual was simply that so much time was spent pursuing dead ends... for significant parts of the period; Chinese leaders have not been so much systematically feeling for stones to cross a river (in Deng's phrase) as they have been slogging through a swamp."

With luck, and the consolidation of the stabilisation programme pursued since early 1995, many hope that Russia will, like several eastern European countries, enjoy a spirited recovery over the next few years. By the same token, the Chinese model could lose its lustre if the government does not manage to reform the key problem sectors where gradual reforms have eo far failed.

Rajiv Lall, at Morgan Stanley in Hong Kong, says that the real test of Chinese gradualism is being played ont in the state-owned industrial sector. "I think this part of the economy can and has been improving with gradual reform.

But China's long-term success will depend critically on the rest of the economy growing fast enough to absorb the people laid off in state factories, and on effective reform of the indebted state financial sector."

Mr Lall says that "barring some major shock to the system, the Chinese have more than a fighting chance of pulling this off." But even those who are optimistic about China's future wonder whether the governmeot will be able to get itself out of the business of propping up state factories without more decisive reforms.

"I'm not willing to say yet that China got it right, and Russia got it wrong", says Miron Mushkat, chief Asia-Pacific economist at Lehman Brothers in Hong Kong. "The Chinese have made some very sensible decisions – no one should belittle their achievements. But as they say in my business, past performance is no guarantee of future success."

* *Growing out of the Plan, Cambridge University Press, 1995.*

World economic convergence: by Stephanie Flanders

Six core reform steps

The capitalist model is capable of being interpreted in different ways

Poor governments around the world are being told that the way to become a rich industrial economy is to behave like one. Would-be emerging markets are supposed to earn their place in the global system, by adopting a particular set of promarket institutions and policies. The question, for many, is whether this cross-country convergence leaves any room for variety.

In the short term, the answer to that question is certainly yes. As the World Bank noted in this year's Global Economics Prospects report, a large number of countries have *not* been converging over the past decade. Trade, for example, has fallen as a share of GDP in 44 of 93 developing countries over the past 10 years.

But it is hard to dispute the broad trend in favour of markets, even if much of the world's population has yet to profit from it. Professor Jeffrey Sachs, at Harvard University, reckons that countries with a combined population of around 3.5bn have undertaken reforms "to adopt the institutions of the capitalist system".

Where will this convergence lead? Professor Sachs lists six "core" reforms required for membership of the global capitalist club. These are: open international trade; currency convertibility; private ownership as the main engine of economic growth; corporate ownership as the main organisational form for big companies; openness to foreign direct investment; and membership in institutions such as the World Bank and the World Trade Organisation (WTO).

As he notes, these steps, in turn, tend to require a certain set of domestic policies: macreoconomic stabilisation; liberalisation of prices, privatisation of state companies and, in theory at least, building a basic social safety net for the poor.

The countries that adopt these reforms generally know what they are rejecting – the inward, state-driven economic policies that reduced growth in previous decades. But the most successful east-Asian economies baulk at the assumption that all must head for the same destination.

"These American guys always think that the US is the world, or at least will be," says Shan Li, economist at Goldman Sachs in Hong Kong. "But the truth is that there are many 'capitalist models' working perfectly well in different countries around the world."

For his part Professor Sachs accepts that complying with tha core capitalist commandments has left room for variation among the world's advanced countries. There is diversity, for example, in the extent of government involvement in the economy and in systems of corporate ownership.

Professor Sachs thinks that internationalisation is eroding even these differences between countries. The welfare state is under sevare pressure across Europe, while debates rage in Germany about the inefficiency of traditional "stakeholder" models of corporate governance relative to Anglo-American, more share-holder friendly, varieties.

East Asia, though, continues to buck the trend. First, on the matter of state industrial policies. Although most economists are sceptical of state attempts to cultivate particular home-grown industries, Japan and many east-Asian "tigers" have long claimed that these were crucial to their success.

A report by the United Nations Conference on Trade and Development agreed with them, arguing that, although international trade rules are stricter, poor countries still had room to pursue selective industry and trade policies successfully.

China has signalled that it would like to learn from Japanese, Korean and Taiwanese industrial policies. The chances are, however, that it will get little support from the World Bank, which doubts that many reforming countries have the bureancratic wherewithal to "pick winners" effectively.

As noted above, there has always been more scope for cross-country divergence in the arrangement and ownership of companies. Whether or not the Japanese system of large corporate cross-holdings, and close bank involvement in companies, has survived the long recession, it is still consistent with Professor Sachs' six principles.

> China has rejected formal privatisation of state enterprises

The same cannot be said, however, of the mixed models of ownership that have emerged in China. By any reckoning, China's economic reforms have been remarkably successful. Yet the World Bank calculates that even in 1995, at most 25 per cent of national output was produced by private firms.

Unlike most transition economies, China has rejected formal privatisation of state-owned enterprises. Critics say that it has paid a price – in subsidies to state firms – for this refusal to follow the standard reform prescription. As they note, it is the non-state sector, rather than state industries, that has driven China's rapid growth since 1978. Non-state firms accounted for 55 per cent of total output last year.

However, this category includes the highly successful township and village enterprises (TVEs), and "urban collectives", neither of which conform to most western notions of private enterprise. Many TVEs have been informally sold off over the last few years. But Rajiv Lall, at Morgan Stanley in Hong Kong, says that are still "huge ambiguities" as to who actually owns them.

"Economic theory says that companies cannot grow without clearly defined property rights," he says. "But whoever decided this obviously forgot to tell the Chinese. So far they seem to have done just fine without them."

The first of Professor Sachs' requirements – open international trade – probably poses the largest threat to countries hoping to bold on to their special characteristics. Fan Gang, director of the China Reform Foundation in Beijing, says that greater openness to the outside world has already helped push Chinese institutions and policies closer to western models. Indeed, he thinks that fears of the contaminating effects of further opening may have slowed progress toward full Chinese membership of the WTO.

Sooner or later, most countries are likely to see the benefits of adopting the bulk of Professor Sachs' core reforms. But even when this is achieved, no-one expects deeper international convergence – either of institutions or of incomes – to happen overnight.

"I do think that a kind of convergence has started - in China as much as anywhere else", says Fan Gang. "Who knows, in 200 years, maybe every country will be the same. But come back in 50 years and you'll still find a good many national traditions and customs clouding the picture."

■ Asia: by Peter Montagnon

Exports begin to falter

Expectations for economic growth are being scaled back across the region

Since Asia's miraculous double-digit growth rates were founded on exports, it is oot surprising to see eye-brows raised when the region's exports falter.

Across Asia as a whole, export performance has disappointed this year. Some countries, sucb as China, have recorded actual falls, while in others, like Thailand, the rate of growth has fallen markedly.

Expectations for economic growth are therefore being scaled back. Forecasts for Korea now predict growth of only 6.9 per cent this year compared with 8.0 per cent last year, according to Coo-sensus Economics, which collates forecasts by leading private sector institutions.

In Malaysia growth is expected to fall to 8.1 per cent from 9.5 per cent, in Thailand to 7.6 per cent from 8.7 per cent, in Singapore to 7.4 per cent from 8.8 per cent and in Indonesia to 7.5 per cent from 8.1 per cent.

A rare exception is the Philippines where growth forecasts average 5.6 per cent compared with 4.8 per cent last year. Forecasts could be increased after the sparkling 7.1 per cent growth rate in the first half.

At one level the economic slowdown is welcome in a region where economists had begun to worry about over-heating. High growth rates, particularly in Malaysia and Thailand, in the the past couple of years have boosted consumption and led to a sharp widening of the balance of payments deficit.

Thailand has been relying on short-term capital inflows to cover the gap, while Malaysia, whose payments deficit last year was 8.8 per cent of gross domestic prodnct, has been seeking to upgrade and expand its exports.

The government of Prime Minister Mahathir Mohamad has tightened interest rates but has been relnctant to abandon large infrastructure projects, including the establishment of a new capital, simply because of criticism that the economy was overheating. But the abruptness with which the weakness of exports became apparent has caused concern that structural factors may be at work as well. Perhaps Asian exporters are pricing themselves out of world markets as wages rise; perhaps they are unable to rise to the challenge of upgrading their skills so that they can switch to sophisticated higher value manufacturing activities.

This theory would explain, for example, why the Philippines has been doing relatively well. Hitherto a laggard in terms of economic development it has recently managed to attract large inflows of foreign investment thanks to the economic reforms wrought by President Fidel Ramos.

But most economists argue that countries such as Thailand still have the capacity to move up market. General Motors gave the country a vote of confidence by choosing it for its new Asian plant this year.

In a recent study, Salomon Brothers argued that the underlying trend of Thailand's more sophisticated exports in areas such as electronics has been upward. If there has been weakness, it has been in the old staples of footwear and textiles. That suggests that Thailand can adjust to the need for modern manufacturing.

Indeed, studies have proliferated among regional economists explaining why the phenomenon of weak export growth in 1996 should not be of too much concern. One frequently-made point is that this follows an exceptionally buoyant year in 1995.

Another is that much of this year's disappointment reflects the pronounced slowdown in world demand for semiconductors and finished electronic goods. This has hit the economies of Sonth Korea and Taiwan hard, but electronics also account for a large proportion of exports in Thailand, Malaysia and Singapore.

The assumption is that the slump in demand for electronics is cyclical and that it should revive in due course.

One other factor which has aggravated the situation this year has been the recovery of the dollar against the yen. Since many Asian countries link their currencies, at least loosely to the dollar, this has meant a real appreciation which has made their products more expensive.

Again, though, this phenomenon ought to be reasonably temporary. The dollar appears to have stabilised against the yen and productivity gains should offset the real appreciation in Asian currencies.

But the rising dollar has raised questions about how well the governments of the region are equipped to operate economic policy. Many of them are deeply averse to borrowing and traditionally-run balanced bndgets or even fiscal surpluses.

That leaves little room for using fiscal policy to fine tuning of their economies, although the World Bank has argued that Indonesia should tighten fiscal policy and aim for a surplus in coming years to pay down some foreign dsbt and help mitigate inflationary pressures.

Like other countries in the region, Indonesia has difficulty offsetting the inflows of foreign exchange that are produced by direct and portfolio investment. Attempts to counter the inflationary impact of this liquidity with high domestic interest rates only tends to attract additional inflows.

Once way of getting round this problem would be to free up the exchange rate.

Governments in Asia are generally reluctant to adopt this course because they fear the initial reaction would be a sharp depreciation, especially after the pressure that some of them have seen on their currencies this year. They fear that allowing the exchange rate to depreciate would encourage a Mexican-style economic crisis.

Bnt many economists believe that after the initial shock Asian currencies probably would appreciate.

If this happened, the excess liquidity created by capital inflows would dry up, inflationary pressures would abate and domestic interest rates could be lowered.

To take such a step would be require courage but the issne is starting to be debated in several Asian countries. With fiscal policy less useful than in other regions as an economic lever, the exchange rate is one of the few alternative ways of easing the strain on domestic monetary policy of dealing with excess money market liquidity.

Asia-Pacific consensus forecasts

	Real GDP % increase			Consumer prices % increase			Current account balance ($bn)		
	1995	1996f*	1997f	1995	1996f	1997f	1995	1996f	1997f
Australia	3.2	3.6	3.4	4.7	2.7	2.6	-18.3	-15.4	-17.8
Hong Kong	4.7	4.4	5.1	8.7	7.0	7.6	-2.9	0.5	2.8
Indonesia	8.1	7.6	7.5	9.4	8.7	8.8	-7.2	-8.6	-8.8
Malaysia	9.5	8.3	8.0	3.4	3.8	3.7	-7.1	-7.2	-6.6
New Zealand	3.4	1.7	2.7	3.7	2.3	1.4	-2.5	-2.7	-3.0
Singapore	8.8	7.7	7.5	1.7	1.6	2.1	15.1	13.2	13.1
South Korea	8.0	7.1	7.2	4.5	5.0	4.7	-8.9	-12.4	-10.2
Taiwan	6.1	5.8	6.2	3.7	3.1	3.7	5.0	5.6	5.5
Thailand	8.6	7.8	7.8	5.8	5.7	5.1	-13.5	-15.0	-15.7

* f = forecast
Source: Consensus Economics 1996

■ Reducing global income inequality: by Robert Chote

The catch-up credo

Integration into the global economic system is essential for poorer nations

One of the more cheering conclusions reached by economic theorists is that people's incomes should rise more quickly in poor countries than in rich ones. In the theorists' world, global income inequality should therefore diminish over time.

Conventional explanations of economic growth start with the common sense observation that what you get out of an economy is determined in large part by what you put in. Production and incomes will therefore be promoted by a growing population or by the accumulation of plant and machinery.

But the more you invest in a particular type of technology, the less extra benefit you derive from it. So, while investment in capital equipment can raise the level of output and incomes in an economy, it cannot permanently raise the growth rate. That requires innovation and technological progress.

This suggests two reasons why poor economies should grow more quickly than rich ones, so that living standards converge in a "catching-up" process. First, you get a higher return investing in machinery in a country which has little to start with than in one which is already well endowed. Second, it is easier for developing countries to imitate existing technologies than for the most advanced nation to extend the boundaries of knowledge through innovation.

But does the catch-up hypothesis fit the facts? Only up to a point. Daniel Landau, at the University of Connecticut, calculates that the further a country lagged behind US output per head in 1950, the faster it grew over the subsequent 40 years. But once output per head reached 80 per cent of the US level, the scope for catch-up had largely disappeared. Countries naturally exploit those technologies for which the benefits most exceed the costs, so the speed of catch-up declines as the gap between costs and benefits closes.

Landau's research encompasses most of the post-war period, but Jeffrey Sachs and Andrew Warner of Harvard University found no evidence of worldwide income convergence looking at the 1970s and 1980s alone. In work for the Brookings Institution last year, they noted that many poor countries – notably in sub-Saharan Africa – not only failed to grow as quickly as the rich nations, but saw living standards fall in absolute terms.

But Sachs and Warner do not reject the idea of catch-up altogether. They argue that it applies only to those countries which integrate themselves fully into the global economic system. Trade and investment flows make it easier for countries to adopt advanced technologies from overseas, while international competition also forces governments to make worthwhile economic reforms in other areas.

"Among developing countries, open trade has tended to be correlated with other features of a healthy economy, such as macroeconomic balance and reliance on the private sector as the main engine of growth," they argue.

Sachs and Warner divide the world into "closed" and "open" economies. They define an economy as closed if it has average tariff rates of 40 per cent or higher, if non-tariff barriers cover at least two-fifths of its trade, if it has a state monopoly on major exports, if it has a socialist economic system or if it has had a depreciating black-market exchange rate.

Among the developing countries, the open economies grew by 4.5 per cent a year in the 1970s and 1980s while the closed ones grew by only 0.7 per cent a year. Among the developed countries, open economies grew by 2.3 per cent a year and the closed economies by 0.7 per cent a year. Eleven of the 15 open developing economies grew by more than 3 per cent a year, but only four of the 74 closed developing economies did.

As well as growing more quickly, open economies were better at avoiding macroeconomic crises and more successful in making structural reforms. The only period in which closed economies performed as well as open ones was in the early 1970s, because they were better insulated from the huge jump in world oil prices and the collapse of the semi-fixed exchange rate regime set up at Bretton Woods. "The data suggest that the absence of overall convergence in the world economy during the past few decades might well result from the closed trading regimes of many of the poorer countries," Sachs and Warner conclude.

Of the 111 countries examined by Sachs and Warner the slowest growing open economy over the 1970s and 1980s was Switzerland at 1.2 per cent a year and the fastest was South Korea at a little over 7 per cent. But among the closed economies, only China and Botswana grew by more than 4 per cent a year and seven nations saw incomes decline on average by more than 2 per cent a year. These included the likes of Niger, Angola, Madagascar, Mozambique and Nicaragua.

If Sachs and Warner are right, then hopes of seeing an even more equitable distribution of incomes across the world depend in large part on the degree to which countries integrate with the rest of the world economy.

In recent years, the news has not been encouraging. The World Bank noted in April that the ratio of trade to national income fell in 44 out of 93 developing countries over the last 10 years. And in the early 1990s half of all developing countries received little or no foreign direct investment.

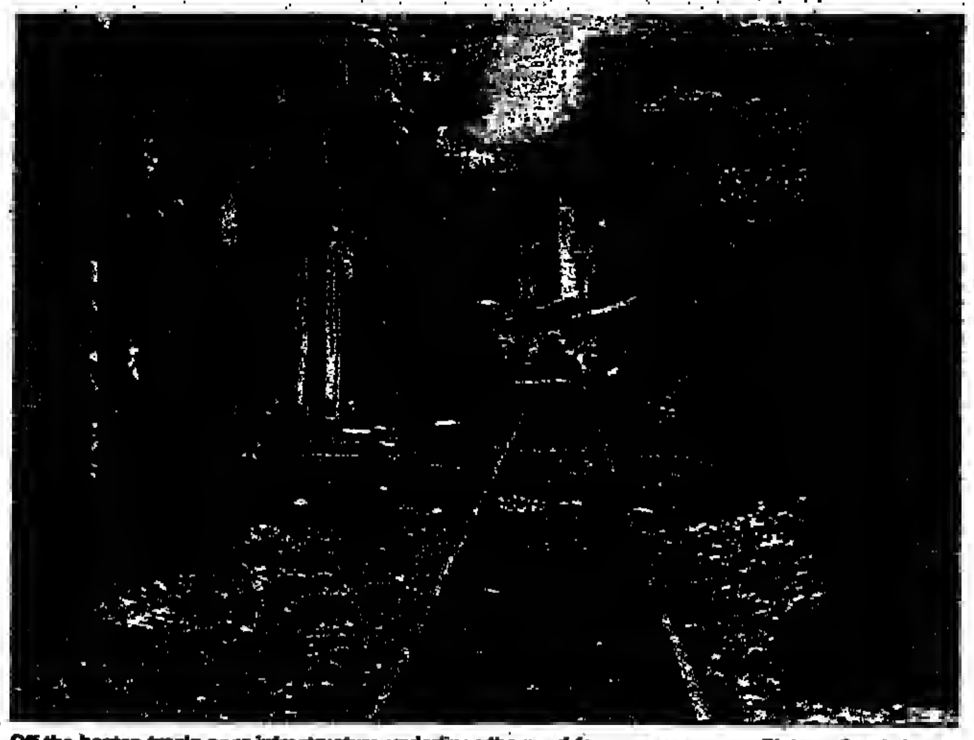
But the World Bank did predict that the pace of international integration would pick up over the next 10 years. This would help lift the growth rate in developing countries to 5.4 per cent a year over the next decade, compared to 3.4 per cent in the 1980s and 5 per cent over the last five years.

"Some countries will prosper; others, including some of the poorest, are likely to experience only moderate rates of growth," the Bank said. "Wide disparities will persist in growth rates across developing countries; and these disparities will be reflected in (and, to some extent, be the reflection of) the pace at which countries are becoming integrated with the global economy."

■ Vietnam: by Peter Montagnon

Well up in the tiger league

A decade of economic reform has transformed the situation in Vietnam



Off the beaten track: poor infrastructure underlines the need for progress Picture: Sarah Murray

Ten years ago Vietnam's economy was in a mess. Inflation was more than 700 per cent. Growth prospects had been undermined by the withdrawal of support from a collapsing Soviet Union. There was mass starvation and an exodus of boat people.

A decade of economic reform, which was accelerated after 1989, has since transformed the situation. Vietnam's growth rate last year was 9.5 per cent, putting it well up in the "tiger" league and its inflation rate, though up on the 1993 trough of 5.3 per cent, was only 12.7 per cent.

It is easy to be dazzled by these achievements, especially since, with Vietnam still isolated internationally in 1986, the reform had to be initiated without the help of the International Monetary Fund or the World Bank. Other states on the margins of the world community such as Cuba, Burma or North Korea have not managed anything like Vietnam's success.

Yet, on closer scrutiny, Vietnam's experience turns out to be less miraculous than it looks. In the first place the situation in 1986 was so desperate that the country had little choice but to initiate reform. The key was farm and other price reforms that stimulated the production of rice and made the country into the third largest exporter after Thailand and the US.

In the second place, the achievements to date have barely scratched the surface of Vietnam's problems. Growth is expected to be high again this year: the consensus among private sector economic forecasters is for a 9.4 per cent rise in real gross domestic product and an inflation rate of 11.3 per cent. But Vietnam remains inordinately poor with a per capita income of just $220, a tenth that of Thailand.

The decision at the communist party congress in July to retain Vietnam's existing ageing leadership is also a signal that the party is nervous about following through on reform and introducing a real free market system.

The fear is that, in a country so heavily addicted to patronage, greater market freedoms would remove levers of power from government and add to the relative political strength of Ho Chi Minh City, the former Saigoo, which has always been more entrepreneurially-minded than its dour northern counterpart, Hanoi.

The challenge for Vietnam's communist party is thus similar to that of China. Somehow it must find a way of maintaining the momentum of economic growth while ensuring it retains a firm grip on power. The outcome of the congress suggests that, faced with a choice, Vietnam's party still prefers the security of planning than risking the kind of chaos which followed the collapse of Soviet communism.

But it is not as if the policy tasks would be easy for a regime more ideologically committed to reform. Vietnam is a large and mountainous country with poor communications, a delapidated infrastructure and a primitive financial system.

To attack poverty it badly needs to redress the imbalanca between rural and urban incomes. According to one calculation by the United Nations, the growth rate in the relatively prosperous region around Ho Chi Minh City was 17.5 per cent in the first three years of the present decade. In the poor central regions it was just 1.7 per cent. Vietnamese economists reckon that the per capita income in Ho Chi Minh is approaching $1,000 but in poorer regions it is just $120.

To create jobs for a workforce expanding by 1m a year Vietnam also needs to develop the private sector. This has been identified by the World Bank as a priority attached to the $1.5bn of concessional loan finance it has offered the country over the three years starting in 1997.

According to the Bank, the private sector created about 4.7m jobs during the period 1989 to 1993. In the same period the state sector shed some 900,000 jobs. Bnt, unlike China, where the government is under pressure to reform state enterprises because many are making large losses, Vietnam's state enterprises are still profitable.

Indeed, in recent years the share of state enterprises in overall economic output has been rising – to 28.5 per cent in 1994 from just 22.9 per cent in 1990, and their net contribution amounts to around 11 per cent of the state budget. Admittedly these figures are distorted by the inclusion of joint ventures including private foreign capital, but Vietnam's planners can be forgiven for failing to see much sense of urgency.

For the first eight months of this year the state sector's outpnt rose 12.7 per cent over the same period of 1995, while that of the non-state sector rose 13 per cent and that of the "foreign-invested sector" rose 18.1 per cent, according to the government.

Yet the assumption that present overall growth rates can be maintained without further development of the private sector is dangerous. Under the aegis of the World Bank, Vietnam has begun banking sector reforms that are intended to improve the payments system, and mobilise the large amount of cash still hoarded by individual Vietnamese under their beds.

That might help boost a domestic savings rate which, at around 17 per cent, is low compared with rates of more than 30 per cent in Thailand and China, but such reforms are slow to bite and the country will need foreign capital as well to secure its industrial and commercial future. The signs are that once-enthnslastic foreign investors are growing less excited.

At one level many find themselves discouraged by the more hostile attitude to foreigners and foreign brands adopted by the authorities at the time of the party congress this summer. At another, there are serious problems over bureaucratic red tape, slow decision-making and corruption in an economy where state planning is still a habit. Unshackling state enterprises would make for speedier and more efficient investment decisions, economists believe.

The hostile climate result has led to some high profile withdrawals by foreign investors, including notably that of Total, the French oil company, which abandoned a $1.2bn refinery project.

Vietnam can ill afford to lose such support, when it is running a large trade aod current account balance of payments deficit. For the first eight months of this year the trade deficit stood at $3.25bn, well above the $2.29bn trade deficit for 1995 as whole.

As in other Asian countries, officials argue that the deficit is itself a consequence of inflows of foreign investment and aid. These show no overall signs of drying up and Vietnam's recent agreement to reschedule some $900m in commercial foreign debt may open the door to more foreign borrowing. But it is a juggling act which cannot last for ever.

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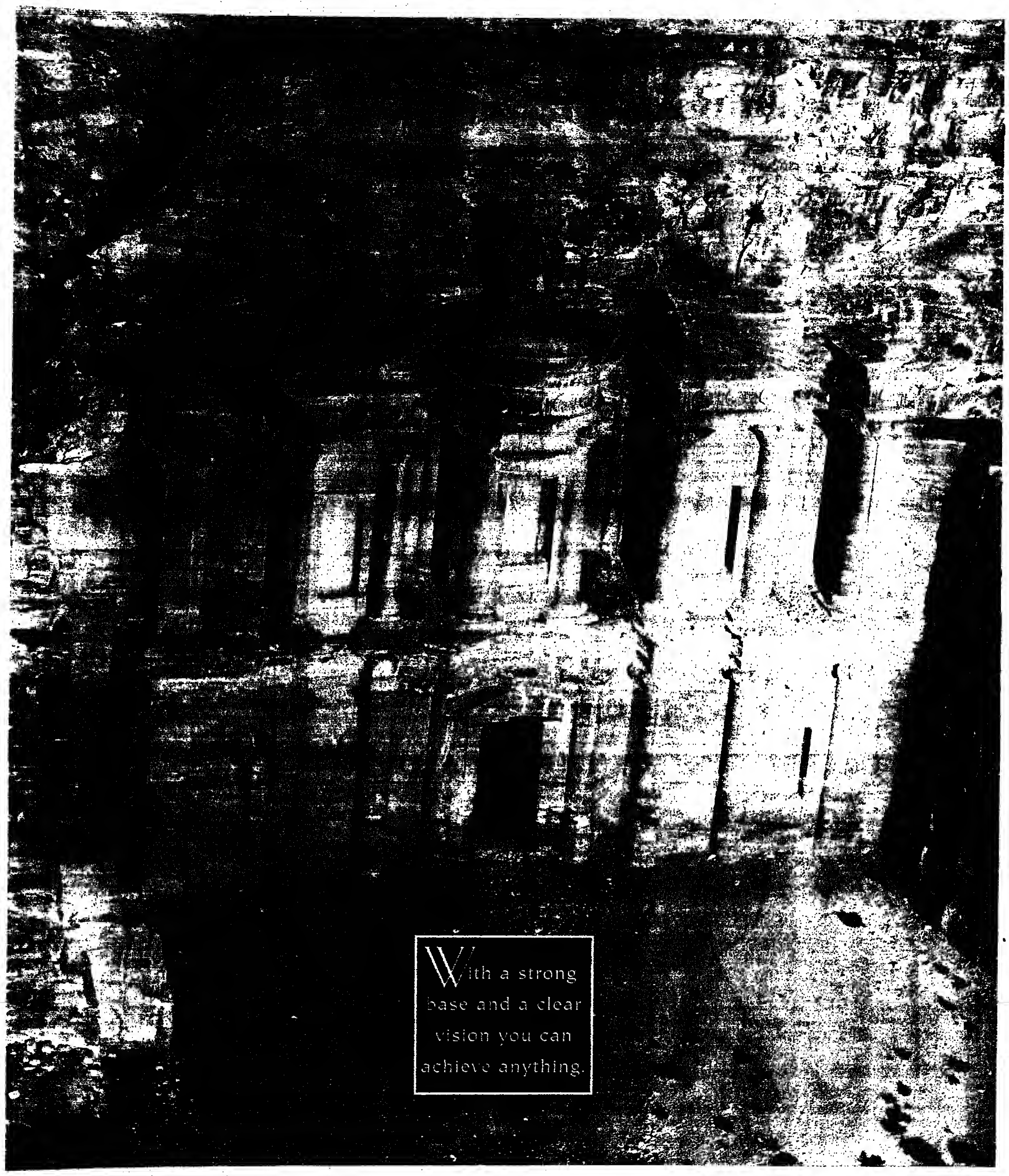


■ **Korea:** by John Burton

Warning from history

Membership of the OECD will be a catalyst for a restructuring of the economy

Opening Korea to "cheap money and expensive commodities" would lead to the country'a economic ruin, one senior official warned as the government argued about foreign pressure for market access.

Altbougb tbe comment could have been heard during the present debate about trade and financial liberalisation, it was made 120 years ago during the closing years of the Chosun dynasty when Korea was known as the "Hermit Kingdom."

The fect that the remark has a contemporary ring to it underscores that Korea has always bad difficulties in accepting integration with the global economy.

But Kim Young-sam, the South Korean president, says the fate of the Chosun dynasty should serve as a warning about the future of Korea if it does not become more global in its economic policy.

Corrupt and unwilling to accept economic reforms, the Chosun kingdom remained weak and Korea proved vulnerable to a 45-year annexation by Japan that began in 1910. "Had the country adopted an open-door policy at that time, Korea would now be one of the G7 economic powers," claims Mr Kim.

Nonetheless, public worries about opening South Korea further to foreign competition have become clearly apparent as it prepares to join the Organisation for Economic Co-operation and Development by the end of the year. The opposition parties and most of the media bave warned about dire consequences if the Korean economy is opened too quickly.

There is little qnestion that OECD membership will serve as a catalyst for a fundamental restructuring of the Korean economy. It will promote a shift from state-guided capitalism to an economy dominated by market forces.

However, economic deregulation is a difficult concept for the public to accept since the government-led industrial policy has proved highly effective in transforming Korea from one of tha world'e poorest nations to one of its richest in the span of four decades.

Cheap state loans helped the steel, shipbuilding and other heavy industries to grow rapidly. A protected domestic market boosted the fortunes of the electronics and car industries. The government played an instrumental role in developing high-technology sectors such as semiconductor production.

But there ere clear signs that Korea's industrial policy is becoming less effective as the economy matures. The prospect that Korea will suffer a record current account deficit of $20bn this year is one indication that the country ie losing its international competitiveness.

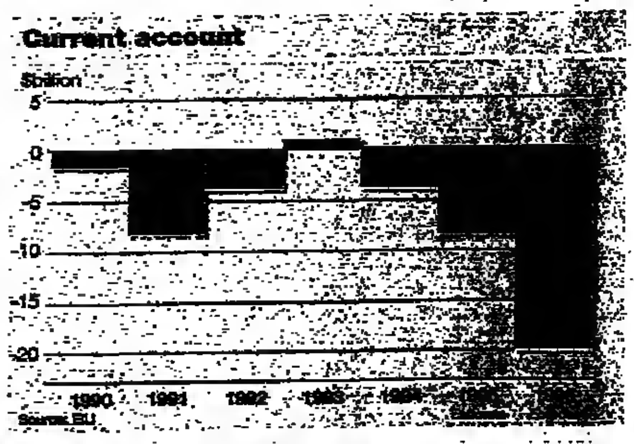
According to a 1996 report on national competitiveness by the Swiss-based Institute for Management Development, Korea ranked 27th in competitiveness, well below other Asian tiger economies euch as Singapore, Hong Kong, Taiwan, Malaysia and Thailand. Its ratings for such specific areas as globalisation, government, finance and infrastructure were even worse than its overall ranking. A number of these problems can be traced to the closed nature of the economy. Interest rates are punishingly high due to a shortage of capital and restrictions on the borrowing of foreign funds. As a result, most companies are burdened by heavy debts.

This reflects the state's preference for tightly controlling the Korean financial system and using it to promote the development of the huge industrial conglomerates, or chaebol, at the expense of small entrepreneurial companies.

Production costs are rapidly rising to first-world levels as workers demand higher wages to buy local products that are artificially expensive due to trade protection. Korean wages are the second highest in Asia after Japan, but productivity lags far behind Japan.

OECD membership is expected to ease the government's grip on the economy. The removal of restrictions on capital flows will result in greater access to foreign financing and consequently lower interest rates.

Korea has also promised the OECD to abolish trade



barriers, including the end of a ban on Japanese consumer products. Increased foreign competition is expected to lead to lower consumer prices.

But many Koreans regard economic deregulation as a threat rather than an opportunity. There are wnrries that a surge of foreign capital into the country will increase inflationary pressure, while causing the Korean currency to appreciate.

Foreign competition also threatens to expose some industrial groups as inefficient, leading to closure of factories. One likely consequence of market opening will be a wave of industrial consolidations.

A market-based economy raises the prospect of greater inequality in a society that places great emphasis on egalitarianism and which enjoys almost full employment and a fair distribution of income.

What is overlooked by critics of the OECD is that an industrial upheaval would occur anyway even if the present economic system is preserved. Indeed, it is happening already.

There appears to be little alternative to Korea embracing economic reforms and doing so quickly. Otherwise, South Korea may be ill-prepared to undertake the enormous task of absorbing North Korea once its economy collapses, which appears to be increasingly likely within the next decade.

■ **Film and music:** by Alice Rawsthorn

Hollywood goes global

Movie studios are beginning to match their counterparts in the music business

Ever since the 1910s when silent movie moguls snapped up cheap tracts of land on the drabbest, dustiest stretch of Sunset Boulevard in Los Angeles, the Hollywood movie studios have pumped out films to cinemas all over the world.

Yet it was only last year that Hollywood became a truly international industry when, for the first time, the studios made more money in other countries than in their native North America, as their counterparts in the music business have done for more than a decade.

The development of the music business sets an encouraging precedent for those who argue that global integration need not necessarily lead to cultural imperialism. Ownership may be concentrated among a handful of companies, but musical taste still differs widely from country to country. The film industry now faces the challenge of striking a similar balance between global expansion and cultural diversity.

On almost any criterion, the music business is undoubtedly a globally-integrated sector. Until recently the industry was dispersed between scores of different record labels. Some, such as EMI and Warner, had long experience of operating in different countries, but most stuck "Tin Pan Alley" style to particular genres and national markets.

After a series of mergers and acquisitions in the late 1980s and early 1990s, the ownership of the world's record labels is now consolidated among a small number of companies, many of which are subsidiaries of the same entertainment and media groups which own the Hollywood movie studios.

The global music market, worth just under $40bn at retail prices last year according to the International Federation of the Phonographic Industry, is now dominated by five companies. PolyGram is a subsidiary of Philips, the Dutch electronics group; Sony Music is controlled by the eponymous Japanese electronics concern that also owns the Columbia and TriStar movie studios; Warner Music belongs to Time Warner, the diversified US media and entertainment conglomerate; BMG is part of Bertelsmann, the privately-owned German media concern; leaving the UK's EMI as the only one of the "big five" to be a specialist music business.

The "big five" command more than two thirds of the global market. However, their international expansion has not led to the disappearance of individual record labels, or to the rise of western megastars at the expense of indigenous talent, as critics once feared.

Established supergroups, such as Ireland's U2 and REM of the US, have flourished, and emerging stars, notably Canada's Alanis Morissette and the Smashing Pumpkins of the US, are becoming popular worldwide. Yet local talent still thrives as illustrated by the popularity of grunge and rap in North America, Britpop in the UK, thrash metal in Germany and the rival genres of Mandopop and Cantopop among Chinese speakers.

The "big five" have also become adept at maintaining an arm's-length relationship with the independent record labels which are often considered more appealing to new talent than large corporate concerns. Sony recently extended for five years its 49 per cent investment in Creation Records, the UK label that signed Oasis and Super Furry Animals. EMI has been careful to allow many of its Asian labels to keep their own names and images for fear of alienating consumers if they realised those labels were under foreign ownership.

Issues of national identity will attain greater importance in the future as the dynamics of the global music business change with established markets losing share to emerging ones such as those in Asia and Latin America. A recent analysis by Music Business International magazine predicted that Asia's market share will rise from 21.6 per cent last year to 28.9 per cent by 2000, with those of North America and western Europe falling from 35.4 per cent to 27.5 per cent, and from 33.9 per cent same period.

A similar shift in market share should be apparent in the film industry as "rest of world", as the Hollywood studios somewhat dismissively call it, continues to expand faster than north America.

Some US blockbusters become worldwide hits, including this summer's successes, Independence Day and Twister. But a recent trend is for some films, particularly star vehicles, to make significantly more money outside north America than they did there. Waterworld, last summer's aquatic epic, for instance, compensated for a poor performance in the US with robust receipts elsewhere.

In the short term this trend should benefit the Hollywood studios by lessening their dependence on the domestic market. Over the long term, however, it may pose problems as it has contributed to the escalation in star salaries and has triggered an increase in the number of films made, thereby rendering it increasingly difficult for movies to make an impact at the box office.

Meanwhile, the Hollywood studios, like record companies, are making efforts to "localise" their output by making more films outside north America. This development is partly driven by growing awareness of the need to appeal to foreign audiences, and partly by spiralling labour costs.

Several recent Hollywood-funded films, including Mission Impossible and this year's Oscar-winner, Braveheart, were shot in Europe. The US studios have also been setting up European operations, notably the new animation units opened by Walt Disney in Paris and Warner in London. And they are involved in plans to open new production centres in Europe, particularly in the UK, which has been the main beneficiary of the US film industry's Europhilia having enjoyed a long historical association with the US studios and, of course, sharing the same language. Walt Disney has for some time been searching for a UK base and Warner recently joined forces with United News and Media, the London-based media group, to seek planning permission for a studio near London.

The logistics of film making, with its huge production budgets and rocketing marketing costs, means that Hollywood will never be able to adapt its products to match local markets as effectively as the music industry does. But so far as the film market becomes increasingly globally integrated, it looks as though the US movie studios will at least try to meet the needs of "rest of world".

Established supergroups, such as REM of the US, have flourished

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WORLD ECONOMY and FINANCE

PART 2

IMF-World Bank annual meetings
Washington
September 28 to October 3 1996

■ The challenges facing international institutions

Great survivor makes itself useful

The way in which the International Monetary Fund has tackled world events testifies to its creativity and the high opinion in which it is held. Martin Wolf discusses a new role for the IMF as it faces up to a world of global capital flows

The genius of the International Monetary Fund is its capacity for making itself useful. Under the Bretton Woods system of fixed exchange rates it was supposed to be the coach of the world's monetary team. Deprived of that role with the move to generalised floating in the 1970s, it has since been the sweeper – the favourite instrument for dealing with unexpected events in the world economy.

Strongly directed and competently staffed, the IMF has seized the opportunities afforded by every adverse economic wind. The crisis that followed Mexico's deval-ustion at the end of 1994 is merely the most recent example. Before that there were the oil shocks of the 1970s, the developing country debt crisis at the beginning of the 1980s and the collapse of communism at the end of the decade.

As the chart shows, each of these events stimulated surges in IMF lending. But to increase its activities, the Fund has also had to invent new forms of lending. The standby facilities with which it began now operate alongside the compensatory and contingency financing facility (CCFF) for temporary shortfalls of foreign exchange; the extended fund facility (EFF), which provides longer-term assistance; the structural adjustment and enhanced structural adjustment facilities (SAF and ESAF) for low-income member countries; and the systemic transformation facility (STF) for economies in transition from socialism.

All testify to the IMF's creativity and the high opinion in which it is held by its most powerful members. But the sums lent to Mexico – which obtained a standby for 12.1bn special drawing rights (SDRs) (about US$18bn) in early 1995 – and other countries affected by its woes, has led to a search for additional resources.

A part of the solution could be enhanced quotas, now under discussion in the eleventh general review. The more immediate one is expected to be enhancement of the general agreement to borrow (GAB): lines of credit of around $28bn from 11 industrial countries (called confusingly the "gronp of 10"), plus Sandi Arabia. Agreement has almost been reached on a new agreement to borrow, in which the G10 would combine with 12 other countries to provide up to $50bn to boost the IMF's finances in the event of crises such as Mexico's.

Yet the resources available to the Fund are merely a catalyst for potentially vastly greater flows of private finance. Similarly, additional allocations of SDRs, which amounted to a mere 2.1 per cent of member countries' reserves at the end of April 1996, can play no more than a minimal role in sustaining world trade.

The IMF's core mission is not to lend, but to help stabilise an increasingly liberal global economy. This fundamental task can be divided into prevention and rescue. All that has changed since its foundation is its focus, which has shifted from exchange-rate relations among industrial countries to the plight of developing countries and countries in transition.

Yet the IMF has not abandoned surveillance of industrial countries altogether: it has been complaining about their fiscal policies, notably in the World Economic Outlook of May 1996; it is present at meetings of the group of seven leading industrial countries; and it conducts consultations with members under its Article IV. But the Fund's impact on countries that need neither its money nor its expertise is modest.

This is strikingly true for exchange-rate developments, once its raison d'être. Michel Camdessus, the managing director, talks wistfully of a shift from co-operation to true policy co-ordination among the G7. In this he is characteristically French – and doomed to frustration.

A potentially more significant form of prevention is the IMF's post-Mexico effort to improve the adequacy and timeliness of statistics. The special data dissemination standard for countries with, or seeking, access to international capital markets was agreed in April. The Fund is posting information about the statistical commitments of some 30 members on the Internet this month.

Meanwhile, the IMF will also increase the intensity of regular surveillance of member countries, focusing on developments relevant to their creditworthiness. In doing this, it has inevitably found itself straying into two areas outside its original mandate: convertibility on capital account and the strengthening of banking systems.

Where prevention ends, rescue begins. The IMF has taken a huge bet on Russia, agreeing a three-year extended arrangement of SDR 6.9bn ($10bn) in March 1996, the largest in its history. Its bet on Mexico was at least as bold – and highly controversial. Intervention on this scale is arguably neither a desirable, nor a likely, response to a similar event elsewhere.

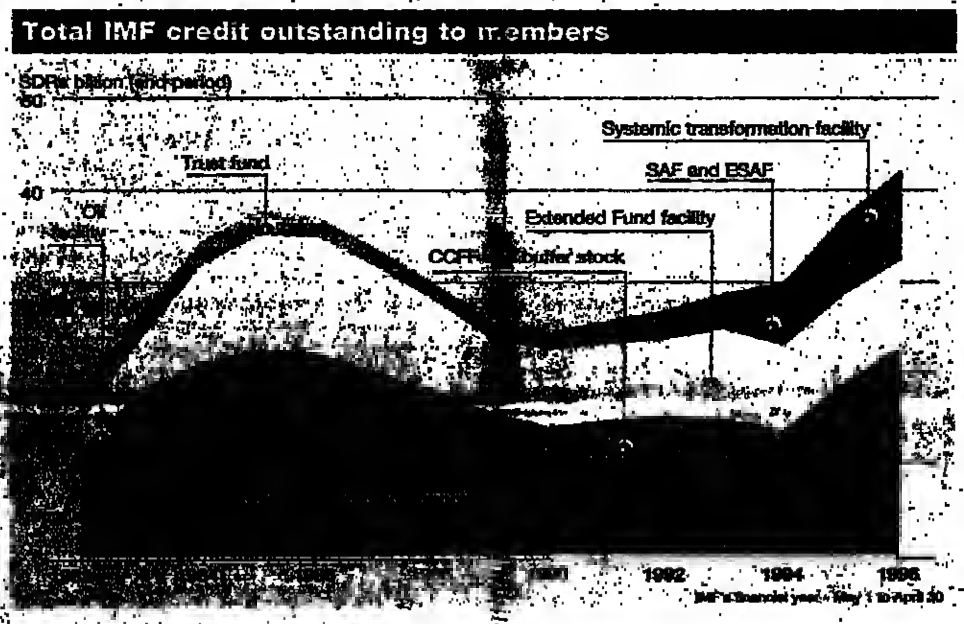
A G10 report published in May asserted that "neither debtor countries nor their creditors should expect to be insulated from adverse financial consequences by the provision of large-scale official financing in the event of a crisis". It also rejected the institution of formal international bankruptcy procedures. But the report did encourage official support for initiatives to promote co-operation between debtors and private creditors.

Together with the World Bank, the IMF has also been working on a programme aimed at achieving "debt sustainability" – defined as a ratio of debt-service to exports of 20-25 per cent and a present value of all claims not exceeding 200-250 per cent of exports – for highly indebted poor countries. Twenty seem potentially eligible. Since the IMF refuses to write off claims, its own contribution will be provision of additional funds on a more concessional basis than ESAF. Most members agree that the subsidy should be funded by selling up to 5 per cent of the Fund's gold stock. But Germany, in particular, has been adamantly opposed to the scheme.

So prominent an institution has many critics: some complain it is indifferent to the fate of the poor; others that it overlaps too closely with development agencies, notably the World Bank; others that it is too secretive; yet others that it is professionally incompetent; others again that the conventional wisdom it embraces is simplistic, if not damaging; and still others that it has strayed too far from its original purpose.

The new world of global capital flows creates opportunities for the IMF, but also dangers. Particularly difficult is balancing the insider status it possesses against the need to reveal what it thinks to the world at large. The conflicts inherent in this uncomfortable position were brutally revealed in the Mexico saga. Yet the IMF seems certain to remain indispensable. It is, after all, the great survivor.

Total IMF credit outstanding to members



PROFILE James Wolfensohn

Development missionary

James Wolfensohn, president of the World Bank, bridles at the idea that he should have a "vision" for the Bank of the 21st century. "When people say I don't have a strategy, I get quite defensive about it. I have 100 strategies, or 120 strategies, for however many countries there are . . . I don't think an articulation of a general strategy makes any sense whatsoever."

Nonetheless, that is what many of those gathering in Washington for the World Bank/IMF annual meetings will be expecting from the new president. They will be looking for answers to the biggest questions. Where exactly is Mr Wolfensohn taking the Bank? What is its role in a world where many countries no longer need its lending? "Will it be the Africa bank, or the bank that leverages private sector development, or the same old Bank doing all the same old things only better?" asks one staff member. It is not clear when Mr Wolfensohn intends to reply. But chances are that final answers will not come from the annual meetings.

Perhaps it is too soon to expect much clarity on "the vision thing". Mr Wolfensohn, the former merchant banker turned development missionary, has been president for only 16 months. He has spent those months focused on two priorities: improving the bank's external relations with client and shareholder governments and with non-governmental organisations; and tackling a large internal reorganisation. He has chosen to concentrate on the way the Bank does its work. Only later will he decide exactly what that work should be.

First, he will conduct a six-to-12 month review of all the Bank's programmes, country by country, taking into account "most significantly", he says, "the desires and the direction that the government and peoples of those countries want to go in". Aides describe that review as a "work in progress".

In the meantime, he will focus on the internal cultural revolution which he promised when he came to office: "breaking the arm lock of bureaucracy" and dismantling the personal fiefdoms run by some senior managers; creating a personnel system based on merit not patronage; and instilling a "results-based" culture where staff are judged by whether projects work, not by how much they lend.

That revolution has been going on for more than a year already, and Bank staff are showing signs of "change fatigue". Mr Wolfensohn's aides say they believe morale will rise now that the Bank's new internal structure is finally taking shape: power is being devolved from head office to the field, with some country directors already taking up residence in borrower capitals; the first of a series of new "technical networks" has been created, to pool technical expertise previously dispersed throughout the Bank;

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Missionary

Continued from page 19

and senior officials are returning from a combination of management courses and field experience renewed and reinvigorated.

But what Mr Wolfensohn has undertaken is a massive exercise in group therapy, and it will not be completed overnight. Many staff complain that his difficult personality is oot belping: they say he is irascible, thin-skinned, and reluctant to ehare credit with subordinates. Others counter that staff have simply been cossetted.

Externally, the Bank's isolationist image has been transformed by Mr Wolfensohn's ceaseless efforts to listen to constituents, whether borrowers or shareholders or non-governmental pressure groups. But the first blush has faded from some of these new relationships: the development charity Oxfam recently published a "report card" on Mr Wolfensohn which gave him a B-rating, citing delays in bridging the gap between the new president's rhetoric and Bank reality.

Oxfam graded the president on various subjects, but ewarded its highest mark for his efforts to relieve the debt burden of the poorest countries, where he has shown strong leadership in fighting for a deal – which could be agreed at the annual meetings – to reduce their debt burden to bearable levels. The debt deal, if agreed, would represent the most visible achievement of the new Wolfensohn presidency.

But the Bank's constituents will be hoping for more. With his passion and strong moral commitment to development, Mr Wolfensohn has managed to unleash tremendous energy within a previously moribund institution. But that may dissipate, unless be provides e strong sense of direction.

The Bank needs a clear and focused vision of its future. That means making hard choices ebout what it should do. The ultimate test of Mr Wolfensohn's missionary presidency will come when, over the next year, he begins to make those choices.

Patti Waldmeir

■ **World Trade Organisation** : by Guy de Jonquières

A road map still needed

No consensus yet exists on the aims for the first ministerial meeting

Barely three years after completing the Uruguey Round, the biggest trade liberalisatioo package in history, internetional trede negotiators are starting to ask where the world trade system should go next. So far, the question has created as much discord as harmony.

The immediete focus of the debate is the forthcoming ministerial conference of tbe World Trade Organisation in Singapore in mid-December. The first such meeting since the WTO was set up last year, it is an important opportunity to assess tbe WTO's record and to map out the road ahead.

The one point oo which everyone agrees is thet Singapore should not launch a new omnibus negotieting round. Not only have the Uruguay Round's provisions yet to be fully implemented, but most WTO members have no appetite for a repetition of that gruelling eight-year marathon.

However, no consensus exists on exactly what Singapore should aim to achieve. The US, which in any case lacks the legislative authority to embark on new negotiations, wants the meeting to be largely a stocktaking session, designed to consolidate the achievements of the Uruguay Round. This low-key approach has some support in Asia and Latin America.

Sir Leon Brittan, the European Union's trade commissioner, favours a more ambitious programme. He has accused the US of footdragging and wants the WTO ministerial to pave the way for another big liberalisation push by committing itself to preparing for a new trade round by the end of the century. Australia, meanwhile, has called for an agreement to speed up tariff cuts.

Some of these disagreements turn out to be semantic. The WTO is committed by the Uruguay Round to further negotiations and reviewe in the next few years in sectors including services, agriculture and textiles. Some observers believe this "built-in agenda" may, in practice, develop into a fully-fledged round.

The biggest potentlal flashpoint is over US and EU demands that the WTO should grapple with e series of "new issues" in areas such as the environment, workers' rights, competition policy and corporate bribery.

Most of these proposals – and ebove all the ldea of linking trade and labour etandards – are fiercely opposed by even the most advanced developing countries, which see them as protectionist or otherwise inimical to their own interests.

Furthermore, many of the poorer WTO members complain that they have seen few benefits from the Uruguay Round and accuse rich countries of not living up to the spirit of commitments, notably to open their textiles markets. Failure to settle these disagreements could reduce Singapore to an acrimonious shouting match.

Behind the unresolved debate ebout the specifics of tha Singapore agenda lie deeper ehifts, which are influenclog governments' attitudes towards tha role of the WTO.

Creation of the WTO has provided a more coherent institutional framework for the conduct of world trade relations than the General Agreement on Tariffs and Trade, which it replaced. It also has a wider remit.

However, its record to date has been mixed. Its biggest success has been in establishing mucb stronger disputes procedures, which have encouraged many countries to look to the WTO to settle trade conflicts.

But hopes that the WTO could become a permanent negotiating forum have so far been disappointed. Deadlines have passed without agreement in two sets of talks, on telecommunications and maritime services.

Furthermore, and contrary to critics' efforts to portray it as e powerful snpranational monolith, its resources remain tight. Members have rejected pleas for a budget increase by Renato Ruggiero, its director-general.

Yet the WTO is also being called on to tackle much bigger challenges than the Gatt ever faced. The emergence of fast-growing economies, notably in Asia, is rapidly reshaping the dynamics of trade relations, while important applicants – including China and Russia – are queueing to join.

Meanwhile, the task of liberelisatlon is pushing beyond border barriers into poorly charted areas such as eervices, traditionally viewed as the province of countries' domestic policies.

The WTO faces these tests without the transcendent leadership of the multilateral trade system which the US provided for most of the Gatt's life. Not only is the US still seeking to redefine its role after the collapse of Communism, but support for fresh trade liberalisation initiatives of all kinds is patently wavering ln Congress and among US voters.

US relations with its allies have also been blighted by legislation which would penalise foreign companies investing in Cuba, Libya and Iran.

Finally, the picture is complicated by the worldwide epread of regional trade arrangements, which some trade experts fear will ultimately fragment the global economy and undermine multilateral principles.

Some observers argue that the WTO needs fresh impetus and firmer direction if it is to prove up to the tasks ahead. One proposal is that members should set a target date for total global liberalisetion. Mr Ruggiero has fretted that the WTO enjoys neither the glamour nor the high-level political attention commanded by regional trade initiatives. He has flirted with the idea of e summit to mark the Gatt's 50th anniversary.

None of these ideas seems likely to be adopted. However, Sir Leon Brittan, at least, seems sympathetic to arguments that Singapore needs to demonstrate a political commitment to giving the WTO a clear strategic vision for the future. His ettitude reflects in part e growing belief in Brussels that a strong WTO and effective multilateral rules are central to EU interests.

■ **OECD:** by Gillian Tett

Think-tank role expands

The new head plans a much stronger focus on trade and social issues

In recent months an unusual phenomenon has been spotted in the corridors of the Organisation for Economic Cooperatioo and Development (OECD) in Paris.

In previous years OECD staff have followed the French practice of spending July and August on the beach but last summer most stayed at their desks. As one OECD official says: "No one dared to take much holiday with so many changes under way et the group."

This new diligence is not surprising. For earlier this summer Donald Johnston, a former Canadian politician, arrived in his new post as OECD secretary-general and the move is threatening to trigger a bigger shake-up at the group than anything it has experienced for at least a decade.

Some diplomats suspect this is long overdue. For the Paris-based gronp, which was founded 30 years ago as a bulwark of the western world egainst the Communist bloc, has been searching for a new identity.

It is still highly valued by governments as a meeting point and research body. And with many governments now cutting their own spending on economic research, its importance as a think-tank is growing.

But the group has been slow to adjust to a changing world. Although the emerging markets are exhibiting economic muscle, the 27-strong membership ls largely western dominated.

In recent years it bas expanded to accept Poland, the Czech Republic and Hungary as members, but its internal structures bave been ill-suited to cope with e shift in geographical focus, or e growing budget squeeze. Mr Johnston is painfully aware of these problems. And after mulling over them in the summer, he is planning a three-pronged reform campaign.

The first plank of this is the OECD's FFr1.7bn budget. The group has been facing growing pressure from its member governments to curb costs. This pressure was transformed into a near crisis last year when the US refused to pay its contribution.

The US has now agreed to pay its due, albeit with e 2.5 per cent reduction but since this cut has now been copied by all other members, this has left the overall budget smaller. Mr Johnstoo insists be will tailor the group to fit the new budget. "I think it is very important that the financial situation be stabilised," he explains.

He hopes that costs can be reduced by trimming administrative expenses: a recent management consultancy report showed that the services were highly inefficient. But since 85 per cent of the budget is staff costs, this may mean job cuts as well.

The second task Mr Johnston faces ls rather harder. For the budget squeeze has convinced him that he must also change the internal structure of the group.

Some changes have been made: a new management committee has been created. But others could prove far more difficult. This autumn controversial proposals will be consldered for a reform to the OECD's links with non-members, which could include suggestions for e new category of associate members. "We need to rationalise our out-reach programme to non-members," Mr Johnston says.

Meanwhile, efforts are under way to change the OECD's tradition of giving every member a veto over decisions. This move is strongly resisted by smaller countries. Yet, without these changes, Mr Johnston will find it hard to tackle the third plank of his reform project – developing e new focus for the group.

Mr Johnston will submit his thoughts about this to governments this autumn. This is likely to include a stress on the role that the group should play in promoting free trade.

Earlier suggestions that the OECD could make the global trade mandate its key priority have met with a cool reception at the World Trade Organisation. And Mr Johnston himself is now stressing that any free trade focus should go hand in hand with other social and economic issues. In particular, he suggests that e key question to be examined by the OECD is how to create social stability in conditions of fiscal austerity and deregulation.

"The OECD would argue that fiscal consolidation is essential, and so the question is, 'what can we do to help governments to convince electorates to stay the course?'" he says. Recent demonstrations in Australia and mounting unease in France provide a graphic illustration of the urgency of the problem, he points out.

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■ Multilateral development banks: by Graham Bowley

MDBs under investigation

A blueprint for reform is now being drawn up by the World Bank and the IMF

Since their creation, the world's five multilateral development banks (MDBs) have played an important role in helping poor countries foster sustainable economic growth and higher standards of living.

But the purpose of these publicly-funded institutions – the World Bank in Washington and the four regional development banks in the Americas, Africa, Asia and Europe – is now being closely re-examined.

This examination has been spurred by a growing consensus among policy-makers that large-scale public involvement may hinder private sector development and by allegations of corruption and incompetence against some of the MDBs.

It also reflects the recognition thet in many ways the circumstances in which the banks came into being have changed significantly. The MDBs must therefore be modernised to reflect these changed conditions.

A task force set up by the World Bank and the IMF to examine the MDBs concluded earlier this year: "The multilateral development banks face a world vastly different from the one in which they were created."

Reflecting the growing urgency for change, world leaders at the Group of Seven summit in Halifax last year discussed what Lawrence Summers, the US deputy treasury secretary, called a "blueprint for reform" of multilateral development banks.

This initiative urged banks to learn from past mistakes and to pay more attention to investment in people and popular participation in projects and to put greater emphasis on environmental projects.

The G7 attempted to encourage the World Bank and regional banks to decentralise operations. A background paper said development banks should seriously consider "sharply reducing" lending to countries that did not demonstrate a commitment to poverty reduction.

It suggested this commitment could be assessed by comparing the share of government spending for basic social services with the share directed to non-productive areas "such as military spending".

In April 1995, the Institute of International Finance (IIF), a private-sector think-tank owned by international banks and other financial institutions, said, in a report commissioned by the World Bank and International Monetary Fund, that the World Bank and regional development banks had to be "more flexible and creative" if they were to be effective in promoting private-sector infrastructure investment in developing countries.

The report echoed a common criticism that multilateral development banks were financing infrastructure projects that should be financed by the private sector. The multilateral agencies should be "financiers of last resort".

According to the World Bank, only 7 per cent of infrastructure investment in developing countries is from private sources, and 12 per cent from bilateral and multilateral aid agencies. The IIF said private financing would have to grow substantially to meet projected demand for infrastructure investment.


Lawrence Summers: blueprint for reform

As a result of these conclusions, the purpose of MDBs, and whether their make-up is relevant in today's changed world, is now being carefully considered.

The MDBs were created to act as financial intermediaries for private sector savings and aid budgets channelled towards development projects, as well as providers of expert analysis and advice.

On some estimates, the MDBs now provide backing for nearly $100bn in projects each year in emerging economies. Bank funding pays about two-fifths of project costs with local governments and foreign aid donors paying the rest. Recently MDB lending has shifted from projects, such as gigantic dams, agriculture and energy projects – some of these loans have been controversial – to social sector and environmental projects.

As this year's World Bank and IMF report points out, some of the economies MDBs were created to assist have made great strides forward, helped in large part by private capital flows as trade barriers have fallen and financial markets have become more global.

But the report makes clear that there is still an important role for MDBs to play because many countries remain poor and encumbered with growing populations, environmental probleme and widening inequalities.

While private international capital flows have increased sharply, they have tended to be focused on just a small number of emerging countries. Some fast-growing countries have managed to attract large amounts of private sector capital, but others have been less fortunate. It is in these deprived countries that MDBs still have an important role to play.

The report concluded that "the recovery of private sector lending and foreign direct investment should allow the MDBs to focus increasingly on countries and activities that do not readily attract stable private financing".

It said there would always be "critical development activities where governments will remain in the lead" such as investments in roads, health and education. Reforms such as financial market reform required close government involvement and supervision.

But the task force proposed two tests which had to be met before the MDBs became involved in the financing of private eector activities.

First, any MDB funding should be absolutely necessary, and the share of the MDBs' participation must not be so large as to displace private capital. The report said it had to be clear that the activity being funded would not proceed without the support of the MDB. The second test was that MDB involvement had to contribute to development or transition.

PROFILE

Wily operator ready for another term

The appointment in May of Michel Camdessus to an unprecedented third term as managing director of tha International Monetary Fund was a remarkable achievement for someone once dismissed by a fellow Frenchman as an unremarkable official who should end his career running a small-to-medium-sized bank.

Instead, the affable enarque* is coming to the end of his first decade at the helm of the world's foremost financial and economic watchdog, with another five years to look forward to. His longevity in the post belies the fact that he has at some time or another annoyed almost every powerful lobby among the Fund's 181 disparate member countries.

Mr Camdessus has cleverly steered the Fund through a period in which international bureaucracies have become even more unpopular than usual – both on the Left (where they are seen as advocates of a heartless laisser faire economic orthodoxy) and on the Right (where they are seen as nests of pampered civil servants ripe for efficiency improvements and budget cuts).

The Fund's relevance has to some extent been in question ever since the collapse of the Bretton Woods exchange rate regime in the 1970s, the running of which the organisation was created to oversee. But Mr Camdessus was quick to see a role for the Fund in helping the transition of former Communist countries in eastern Europe to capitalism.

But Mr Camdessus has wisely eschewed regional favouritism. From being accused of lending too little financial support to Russia in the early 1990s, he is now accused in some quarters of lending it too much. In 1994, he backed his developing country members in proposing a far-reaching expansion of the Fund's overdraft facility for central banks, while in the process annoying most of the industrial countries who actually pay for it. And in 1995 he pleased the Clinton administration by agreeing to provide massive emergency financial support for Mexico, but infuriated most Europeans by acting before he had asked for the support of the Fund's executive board.

"My job is not to look at what the industrial countries think," Mr Camdessus said in the midst of the overdraft row. "My duty is to give a judgment on what is in the global need." As a practising Roman Catholic and father of six, he has also tried to give the Fund a caring image. But the IMF nonetheless continues to excite hostility from development charities.

Despite this controversially activist record, Mr Camdessus's reappointment was approved unanimously by the IMF's board. Even those finance ministers and central bank governors who have crossed swords with him respect him as a wily operator and effective negotiator, skills which he honed as a deal-maker during the 1980s debt crisis.

Born in Bayonne on May 1, 1933, Mr Camdessus was educated at the University of Paris and then at the city's Institute for Political Studies and the infamous Ecole Nationale d'Administration. He joined the French finance ministry as an official in 1960. After a period as financial attaché to the French delegation to the European Communities in the mid-1960s, he held a number of positions at the French Treasury, becoming director in 1982. Two years later he moved to the French central bank, first as deputy-governor, then as governor.

Mr Camdessus finally took up the managing directorship in 1987, when the French managed to outmanoeuvre Onno Ruding, the Dutch candidate and front-runner, to replace Jacques de Larosiere.

Although he says he is an economic technician rather than a politician, Mr Camdessus enjoys the limelight. As governor of the Bank of France he gave many more press conferences and interviews than either his predecessor or successor. And at the Fund he even appeared on Russian television to explain how President Boris Yeltsin's reforms had merited the IMF's financial support.

His set piece press conferences at the Fund's semi-annual meetings in Washington are also impressive – Mr Camdessus knows just enough about the Fund's current relations with each of its members to begin his answer to every question with apparent effortlessness, giving him time to flick surreptitiously through his briefing notes. His performances gain added charm from his lilting English, the few imperfections in which he plays up intentionally in internal meetings when he wishes to appear unintentionally rude.

The Fund's executive board was hardly surprised when Mr Camdessus seized – with appropriate humility – the offer of a third term. There is still plenty he wants to do. He wants to put the Fund's financing on a firmer footing by securing a politically contentious increase in subscriptions. He wants to give the Fund's newest and least advantaged members fairer access to its resources. And he wants to ensure that importance of the Fund's role in the world economy is not questioned. Running the small-to-medium-sized bank will just have to wait.

* Graduate of the Ecole Nationale d'Administration

■ **Global downsizing:** by John Plender

Job for life has vanished

Unskilled workers have been penalised by new technology and international trade

There are few countries in the developed world where large corporations have not been downsizing their operations. Yet the obsession with downsizing, which has had extensive political fall-out especially in the US, is a characteristic chiefly of the English-speaking economies. This is an extraordinary paradox, since their record in private sector job creation has been infinitely more impressive than that of continental Europe and their experience of structural adjustment has been far less taxing than Japan's. How are we to explain the fear engendered by the shrinkage in company employment in the more buoyant economies of the developed world club?

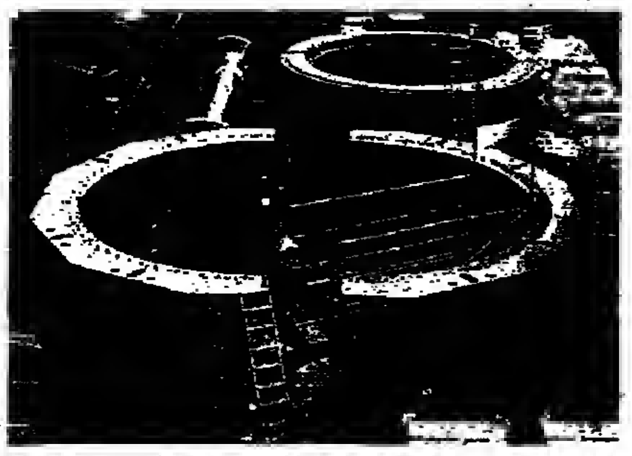
In the US the process of shrinkage among large companies has been more striking than elsewhere. The OECD estimates that between 1988 and 1991 the numbers of companies employing more than 500 people fell very sharply from 50.2 per cent of total employment to 43.1 per cent. The comparable figures for Japan and Germany showed an increase, while those for France and the UK were only marginally down by comparison.

The process has also been going on for a long time in the US. Total employment in the Fortune 500 companies is down from 16.5m in 1979 to 11.5m. Yet this underlines the slenderness of the statistical support for the widespread fear of job losses, since even in 1979 the Fortune 500 only accounted for 16 per cent of US employment. And while employment in smaller companies is less secure, the position of unemployed Americans is enviable when compared with Europeans. Some 12 per cent of the US jobless have been unemployed for longer than a year compared with 30-40 per cent in much of Europe.

Any explanation of the phenomenon must be tentative. But it does seem probable that large companies have suffered some loss of competitive advantage to smaller companies as a result of information technology. Management theorists such as Michael Piore and Charles Sabel have also argued that the industrial structure is shifting from mass production in which semi-skilled workers play an important part in producing standardised goods, to a less rigid model akin to the craft systems of the earlier stages of the industrial revolution. More highly skilled workers are now needed to produce goods that are specific to the requirements of the customer. What is true is that technology and international trade have combined to increase the returns to education in the labour market and to penalise the unskilled of the western world. Inequality in the labour market is particularly marked in the US and the UK.

Yet technological change is also affecting the white-collar employee. This can be seen all around the world in sectors such as banking. In effect, overall employment in financial services has increased as wholesale markets have been required to respond to the challenges of globalisation and increased volatility. Yet retail banking has seen significant shrinkage as many jobs have been made unnecessary by new technology. Similar changes are happening in telecommunications.

Yet these changes are universal, while the fear of downsizing is not. The phobia may be explained by the way the English-speaking economies have embraced rather than softened the impact of technological change through deregulation, privatisation and the takeover mechanism.



Siemens is one German company being forced to cut back on staff

In the US, the UK, Australia and New Zealand, deregulation has been a key policy instrument of the past two decades. Outside the US privatisation, too, has imposed structural changes on large, formerly state-controlled industries. Price cap regulation has forced management to address problems of overmanning which persisted under state control.

The final distinctive element in the English-speaking countries' business culture is the role of the takeover in bringing about structural changes in the economy. In the UK, for example, the shape of banking, pharmaceuticals and the utilities has been transformed in the present decade by a wave of takeovers, some agreed, some hostile, whose rationale has been to increase profitability through cost-cutting.

This robust pursuit of economic efficiency in the US, the UK and Australasia has killed off the job for life. Big company paternalism is being sacrificed on the altar of shareholder value. And the increased use of stock option and other forms of incentive schemes has encouraged the growth of "macho" management in these countries. Executives derive "psychic" satisfaction from demonstrating their capacity to take hard decisions by firing people.

The whole process becomes politically charged when Wall Street responds ecstatically to the news of job cuts, as when the US telecoms giant AT&T announced 40,000 job cuts earlier this year. Such things have been grist to the mill of populist politicians such as Pat Buchanan. Also to the fourth estate which cannot resist headlines about "corporate killers".

This is not to say that there has been no downsizing in the rest of the developed world. Appreciation of the German and Japanese currencies has caused plenty of structural adjustment in these countries, too. Such companies as Daimler Benz and Siemens in Germany are being forced to lay off large numbers. But the treatment of redundant workers tends to be more humane. And the welfare safety net in continental Europe is much more generous than in the US.

It remains to be seen, too, whether privatisation in continental Europe will be accompanied by a regulatory regime that causes large-scale labour shedding. And in some countries such as Italy, downsizing could never become a big issue because the proportion of companies employing more than 500 is small – only 18.7 per cent in 1991 compared with 43.1 per cent in the US and 33.8 per cent in the UK.

The fear of downsizing appears, then, to be a product of the very robust Anglo-Saxon model of capitalism. Economic efficiency has greatly increased but only at the cost of turning insecurity into a key electoral issue in both the US and the UK.

■ **Public services:** by Alan Pike

Efficiency the watchword

As governments seek to contain spending, social provision is under question

There is no international standard in public services. In terms of the proportion of GDP devoted to them, quality of performance and the definition of what constitutes the public sector, they differ widely even between states with similar economic and social systems.

Increasingly, however, public services around the world are becoming united by common pressures as governments seek to contain public spending and encourage economic growth.

Privatisation, so recently a new and controversial doctrine, is now being advanced by governments of varying political persuasions throughout the world. Services which remain in the public sector face powerful pressures to improve efficiency. Nations with extensive social security systems are engaged in intense debates about whether it will prove possible to continue funding them in the future. And, from Sri Lanka to India to France, the effects of privatisation and financial constraints have stimulated protests and industrial unrest among public sector employees.

The scale of public services remains huge. Within the European Union the sector – broadly defined to include central, regional and local government departments, education, health, social welfare and similar state services, and commercial activities such as transport and posts that are often in the public sector – employs 25m, or 15 per cent of the active population.

In the UK, where privatisation has been pursued with particular vigour, public spending by the mid-1990s remained around 43 per cent of GDP – the level it had reached just as the public sector transformation began in 1980. Across the OECD nations as a whole, it rose from 37.2 per cent of GDP in 1960 to an estimated 41.5 per cent by the mid 1990s, while in the main European countries the growth was from 44.7 per cent to 51 per cent.

The World Economic Forum placed only one EU state, Luxembourg, in the top 10 of its 1966 competitiveness index. Its list was headed by Singapore, Hong Kong and New Zealand, the last of these a country which has made remarkable strides under Labour and National governments to restructure its welfare state along more market-based lines.

Most of the leading nations in the list were economies with relatively small public sectors and low tax rates, and one of the forum's basic conclusions was that the European social welfare system was proving too heavy a financial burden even for countries such as Germany and France.

A commentary for the forum by Prof Jeffrey Sachs and Andrew Warner, of Harvard University, concluded that the EU, in comparison with other groupings of advanced economies, was suffering from the effects of heavy taxation, large levels of government spending relative to GDP, inflexible labour markets and reduced saving rates. "These problems seem to be closely related to the ambitious social welfare states of Europe," they concluded.

Even for those who share such an analysis, tackling the issue poses acute dilemmas. Social welfare systems and public services retain strong popular support in advanced democracies – indeed, one of the problems for politicians seeking to control public expenditure is that demands for more and better quality provision in services such as healthcare and education tend to rise with living standards and outstrip increases in GDP.

Governments have sought to moderate the upward spiral of public expenditure on such services by promoting measures to improve the efficiency with which they are delivered. Various internal management models – such as the split between purchasing and providing authorities in the UK's state-funded National Health Service or the growing resort to health maintenance organisations in the largely private US healthcare system – have become internationally familiar features as part of efforts to contain costs.

The UK's privatisation of utilities has attracted worldwide attention

The UK and US are also examples of countries that have seen attempts to encourage the charitable sector to take up more of the slack arising from financial pressures on public services.

UK experience at privatising public utilities and exposing other public sector services to competition through competitive tendering has attracted considerable attention from elsewhere. The UK government believes that it is again leading the field with another innovation to reform public services through its Private Finance Initiative.

Launched in November, 1992, PFI is regarded by the UK government as one of its main hopes for developing more cost-effective public services. It is potentially applicable to an almost infinite array of public sector projects including hospitals, roads, bridges, prisons, computer systems and vehicle fleets. PFI projects are designed, built, financed and managed by the private sector – state agencies, instead of owning and operating capital assets, become purchasers of services from private providers.

Critics of PFI suggest that it is no more than a form of deferred payment for new capital projects. Its supporters reject this, and are convinced that with the private sector sharing the risk involved in delivering state services there will be considerable efficiency improvements and financial savings.

The UK government's target is to secure £14bn worth of PFI contracts by 1998-99. Whether or not this is achieved, there is no doubt that PFI's progress will be watched with considerable interest by other governments. Any solution which holds out the prospects of reducing government capital spending in the short term and improving efficiency at least delays the day when more fundamental questions about the financing and future of public services might have to be asked.

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■ **Balancing the labour market:** by Robert Taylor

Less certain stance

Differences are emerging inside the OECD about its neo-liberal jobs strategy

Ever since the publication of its jobs strategy in 1994, the Paris-based Organisation for Economic Co-operation and Development has been urging the market economies to pursue a deregulatory and flexible labour market programme as a way of creating job opportunities and reducing unemployment.

The Paris policy-makers – true to their neo-liberal economic beliefs – argued that while economic growth and a resulting increase in demand played a part in cutting the numbers of people out of work, the more intractable causes of continuing unemployment were the structural obstacles to job creation that exist in many labour markets.

"The single most important cause of rising unemployment as well as a growing incidence of low-wage jobs, is a growing gap between the need for OECD economies to adapt and to innovate and their capacity and even their will to do so," argued the 1994 jobs study.

The OECD said a new strategy was needed that would create a more favourable economic and social climate within which companies could create new jobs and people learn new skills to meet market requirements. By pursuing policies that would enhance the ability of workers to adjust as well as increase the capacity to innovate and be creative, the numbers of people without work would fall.

The OECD spelt out two years ago what was needed in such an approach to the unemployment crisis. It involved the encouragement of labour flexibility through the decentralisation of wage bargaining from national or even sector-level. This would encourage greater wage diversity based on differences of skill, regions, sectors and companies. There was also the need for less rigidity in the use of working-time by introducing more flexible working hours "tailored to individual worker preferences or family circumstances".

The OECD study also advocated a removal of disincentives on employers to hire. It called for a reduction in the burden of non-wage labour costs in the form of social security contributions and taxes paid by employers and workers to fund social expenditure, which is a particular feature of the European social security system.

In addition, the OECD recommended the lifting of employment protection legislation that makes it difficult for employers to dismiss workers or hire them.

The policy-makers also called for the development of more active labour market policies and a shift away from passive income support for the jobless. It recommended a new emphasis on skills training, a more rigorous welfare-to-work benefit system with a reform of tax and benefit to encourage unskilled and low paid workers to take jobs through the elimination of the poverty trap.

The OECD spoke out strongly against any quick-fix remedies to unemployment such as beggar-thy-neighbour protectionism or cuts in working time to encourage job sharing. It also favoured the creation and diffusion of technological know-how and encouragement for small and medium-sized enterprises. The mix of measures proposed was to be implemented against a macro-economic background of financial prudence in public expenditure, a tight monetary policy as well as low inflation and low interest rates.

The OECD strategy has appeared to harden into dogma in a growing number of its annual country surveys since 1994, although the level of unemployment in the industrialised market economies has continued to rise. There has been, for example, lavish praise for the British neo-liberal experience by contrast to a grudging attitude towards Sweden's labour market policies. In its often highly critical annual surveys on Germany's social market economy since that country's unification, the OECD has insisted its own proposals make sense, particularly in the light of the drive to European economic convergence.

This year in its German study for example, the organisation called for a relaxation of the laws that make it difficult for employers to dismiss workers and the legal restrictions imposed on the use of fixed-term contracts. The study also complained about Germany's low and declining wage dispersion which it suggested might "despite a homogeneous and relatively well-educated labour force, pose a threat to future labour market performance, with unemployment already above average for low-skilled workers and with little possibility for the unemployed to price themselves back into work". However, Chancellor Kohl has gone some way towards what the OECD wants in his latest package of austerity measures.

The employment position in France is more serious – as last winter's industrial unrest and the worries about further labour militancy indicate. Since 1989 successive French governments have sought to increase active labour market policies designed to promote employment with the growth of state-assisted job placement schemes rather than seek to reduce labour force participation through the encouragement of early retirement and shorter working hours.

There is a clear difference of opinion emerging inside the OECD about the success of its neo-liberal jobs strategy. This summer's employment outlook contained criticisms of the US and the UK for what it saw as "some worrying inequalities which are straining the social fabric", particularly in earnings. "When inequality widens, this can lead to more marginalisation, an increase in poverty and exacerbation of budgetary pressure on existing social safety nets," it argued.

Fears of labour market exclusion and the growth in poverty and dependency for the long-term unemployed are becoming more apparent in some parts of the OECD analysis than back in 1994. The latest employment outlook has posed a serious question: "What role can governments play to enable as many people as possible to construct good labour market careers in a turbulent environment, while providing an adequate safety net for those still unable to compete?"

That feeling is apparent in the latest OECD study of the US with its cautionary conclusion: "The impact on the nation's social cohesion of an even heavier reliance on individual incentives and responsibilities and the further dismantling of the already limited social safety net entailed by the favoured means of deficit reduction can be known only with time." The certainties of 1994 are no longer unchallenged even within OECD itself.

Unemployment in the main OECD countries

Percentage of the labour force

			Projections	
	1994	1995	1996	1997
United States	6.1	5.6	5.5	5.6
Japan	2.9	3.1	3.3	3.2
France	12.3	11.6	12.1	12.2
Germany	9.6	9.4	10.3	10.4
United Kingdom	9.2	8.2	7.9	7.5
Italy	11.3	12.0	12.1	12.0
Sweden	8.0	7.7	7.6	7.2
Total OECD	7.9	7.6	7.7	7.6
OECD Europe	10.8	10.3	10.5	10.4
European Union	11.6	11.2	11.4	11.3

Source: OECD Employment Outlook July 1996

■ **Battle of the generations:** by Stephanie Flanders

Conflict between age groups looms

By 2030, the over 60s in the world population will have tripled to 1.4bn

Karl Marx famously believed that all world history had been the history of class struggles. The signs are that the biggest economic battles of the next few decades will not be between classes, but between generations.

As the world's population gets older, governments are realising that meeting the demands of the over 60s means higher taxes and reduced spending and investment on services for the young. Younger generations have a strong interest in demanding that the cost of rapid ageing is spread more evenly. But so far they are losing the battle.

As Marx would have predicted, the root cause of the conflict is technological and economic progress. Better health care has increased life expectancy in nearly all countries over the past 30 years. At the same time, many fast-growing developing countries have slowed their rates of population growth to developed country levels in a fraction of the time it took early industrialisers such as the UK.

The net result of these advances, according to the World Bank, will be a tripling of the number of people in the world over 60, from nearly 500m, or 9 per cent of the world's population, in 1990 to 1.4bn, or 16 per cent, by 2030. Most of this rise will be in developing countries – again, particularly Asian ones.

This leaves politicians needing to work out how the economy can support a much larger number of retired workers. Very poor countries have few or no programmes of public support for the elderly and will find it very difficult to build them afresh as life expectancy rates increase. By and large, however, the greatest conflicts in the years ahead will be in countries which have already made extensive, formal pension promises to the elderly. The younger generations are unlikely to allow the politicians to keep these promises.

Governments in the OECD countries (where the problem is exacerbated by slow wage growth and the post-war baby booms) and in the transition economies will be paying the largest "ageing bills" if their present welfare systems are not reformed. The World Bank predicts that 31 per cent of the OECD population will be over 60 in 2030, compared to 18 per cent in 1990. In eastern Europe the share will rise from just over 15 per cent to nearly 28 per cent.

In some respects China faces the worst of both worlds, with a particularly rapid ageing of the population forecast over the next decades and an already over-stretched – and over-generous – state pension system. The strict one-child policies of the late 1970s and 1980s, and increased life expectancy, mean that the elderly share of the population will increase from a mere 8 per cent in 1990 to more than 22 per cent in 2030.

As is true of most developing countries, only a minority of Chinese who will be retiring in 20 or 30 years' time are covered by existing state pensions systems. These systems will have to be broadened at uncertain cost to the new generations of "only childs". But the peculiarities of the Chinese economic reform process mean that it is already becoming very difficult to finance even the present narrow pension system, centred on industrial workers at state-owned enterprises.

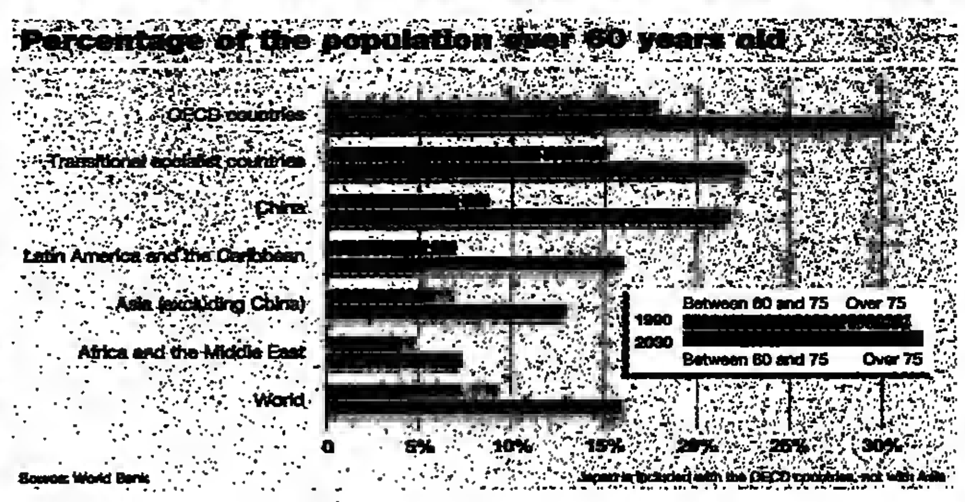
In effect, the shrinking share of workers employed in the state sector in the wake of China's market reforms means that these employees are experiencing their old age crisis early. Worker contribution rates have increased dramatically to pay for a rising number of retired people: in some enterprises, the ratio of pensioners to workers is already more than 1 to 1. Official estimates suggest that, without reform, contribution rates for the state pension system will rise to more than 39 per cent of earnings by 2033, compared to an already high 23-25 per cent in the mid-1980s.

In China as elsewhere, it is fairly obvious what it would take to reduce the projected burden on younger workers. In broad terms, countries need to reduce the projected cost of their present pay-as-you-go pension systems while preparing more sustainable ones to replace or supplement them thereafter. The specifics of downsizing the old systems will of course differ. But most studies on the subject suggest some combination of the following: a higher retirement age, reduced benefits, a flatter structure of benefits to better target the poor, and, if possible, levying the taxes for state pensions from a broader base.

So much for the theory. The trouble, for the "baby bust" generations, is that the same demographic shifts which caused the coming conflict also lower the chances of it being resolved at the elderly's expense. The retired, and soon-to-be retired, have numbers on their side. And they have the advantage that many of those who will end up paying for their benefits either cannot, or do not, vote.

At one level, reform is simply inescapable. On unchanged policies, interest payments and social welfare payments – only one fifth of which go to the poor – will take 75 per cent of all US federal revenues by 2013, and 100 per cent 10 years later. Many European countries can produce equally gloomy forecasts. Sooner or later, action will be taken to avert such a costly transfer from young to old.

Lester Thurow, a US economist and commentator, is one of the gloomiest on the subject. In a recent book*, he points out that, on average, those over 65 in the US receive a little over 40 per cent of their income from government. At the same time, slightly less than 40



Continued on page 24

■ **The lessons of Mexico:** by Graham Bowley

Ready to cope with a crisis

Western economies are building the framework for swift action

In early 1995, western governments led by the US rode to the rescue of Mexico with a $40bn support package after the devaluation of the Mexican peso in December 1994 provoked a run on the currency and caused widespread anxiety among international investors holding Mexican bonds.

The international financial community has spent the months since then trying to piece together the policy lessons it laarned from this costly episode. The hope is thet these lessons will help it prevent and cope more adeptly with Mexico-style crises in the future.

Thare was much soul-searching by policymakers at the June 1995 Group of Seven summit in Halifax. The summit resulted in recommendations that the emergency finance available to the International Monetary Fund through the so-called "general arrangements to borrow" should be doubled to about $55bn.

The idea was that this extra funding would support a new "emergency financing mechanism" to provide faster access to more funds for countries facing financial crises – albeit under strict conditions – when the IMF's own resources are insufficient. In October 1995, the IMF votad to back this scheme, agreeing that it should be allowed to borrow an extra $26bn from the Group of 10 members and up to 15 or 16 other nations.

Finally, in May this year it was agreed that a parallel lending arrangement to the existing general agreement to borrow (GAB) – the new system will be called the new agreement to borrow – involving tha G10 and 12 new countries would be set up offering a $50bn credit line to the IMF in the event of a crisis.

Last October, the IMF also agreed to proposals to set standards for the scope, quality and timeliness of the economic statistics that countries provide to the IMF and the financial markets.

There was soul-searching at the 1995 G7 summit in Halifax

Officials falt with hindsight that better and more timely information about Mexico's trade, debt and foreigo exchange reserves might have allowed the national authorities and international financial institutions to act quickly enough to avert the crisis.

The IMF drew up standards for 17 categories of data which it felt should be met eventually by the 60 to 70 countries that have access to international financial markets. Tha IMF said it would publicly identify those countries adhering to the higher standard.

In July this year, at least 20 industrial and developing countries indicated thet they were willing and able to subscribe to the new standards.

The G10 nations also put forward proposals to ensure more equal burden-sharing among parties to a crisis such as that in Mexico. Particularly vexing to governments following the Mexican crisis was that while governments were providing large sums of money to help Mexico, a group of US creditors holding high-yielding Mexican government paper – and whose unwise lending had exacerbated the crisis – were being paid out on time.

Again after much soul-searching, in May this year the G10 countries came to tha conclusion that in the future bondholders should not expect to be bailed out by governments or official institntions. The G10 concluded that the IMF should be allowed in exceptional cases to step in to lend to dehtor governments even while they remain in default with bondholders.

Under axisting arrangements, the IMF can lend mooey in exceptional circumstances to countries in default on commercial bank loans. But the G10 said this facility should be extended to countries in default on bonds and other securities not to exacerbate countries' adjustment problems in tha wake of a financial crisis.

The G10 also argued for changes in bond contracts which would allow an easier resolution of debt defaults. The aim of this was to reduce the prospect of debt settlemants being held to ransom by a few individuals and to reduce the incentives for bondholders to seek individual settlements.

It proposed adding a number of provisions to bond contracts that would "help the resolution of a crisis by fostering dialogue and consultation between the sovereign debtor and its creditors, as well as among creditors".

These provisions included a mechanism to promote collective representation among creditors. At present, bondholders, which are often numerous and vary greatly, are frequently poorly represented as one unit. The bonds might also allow for qualified majority voting. Most bond contracts stipulate that unanimous agreement among bondholders is necessary before an agreement with the debtor country can be struck.

Finally, the G10 proposed that bonds might include a sharing clause, meaning all bondholders would receive a share of any money paid by the debtor country. But the G10's suggestions drew criticism that they were too modest to have much impact on the resolution of future financial crises.

And some officials doubted that G10 governments would apply their apparently tougher stance even-handedly. They suspected that bolders of small countries' bonds would be left to bear losses but that the international community would still be under pressure to organise a bail-out in the case of crises which threaten serious losses for a wide range of important financial market participants.

Importantly, the G10 report decided against proposals for an international bankruptcy court, deciding that resolntion of financial crises should ba driven instead by the market place with dabtor countries and creditors working to resolve their difficulties.

At the time of the G10 report in May Mario Draghi, chairman of the deputies of tha G10, said: "Investors must bear the consequences of the decisions they make and should not expect the international community to rescue them when the next sovereign liquidity crisis comes to a head."

Whether tha policy lessons learned from Mexico's experience will be fully and properly implemented and whether they will help avert another Mexico-style crisis remains yet to be seen.

The urgency of Mexico's problems has diminished. But the characteristics that gave rise to its crisis – large current account deficits, heavy reliance on short-term debt and excessive monetary growth, combined with fast and at times tumultuous political change - are becoming evident in several fast-growing Asian economies such as Thailand, Malaysia and Indonesia. South Africa, too, was the target of currency speculators intent on punishing unwise economic policies. Perhaps it is in these countries that the lessons learned from Mexico may soon be put to the test.

■ **Multilateral debt relief:** by Robert Chote

Glimmer of a way forward

New proposals deal with the unsustainable burden faced by countries, most of them in Africa

Around half the deaths in Tanzania each year are the result of preventable diseases such as malaria, dysentery, pneumonia, tuberculosis and parental illnesses. Yet the country spends more than twice as much servicing its overseas debts as it does on primary health care or water supply.

This is just one illustration of the human costs of developing country indebtedness. Tanzania's position is all the more precarious because its debt stands on the margin of sustainability. This means that it cannot be confident that its export earnings, aid receipts and capital inflows will continue to be sufficient to service its borrowings comfortably.

Given the existing mechanisms available for debt relief, the International Monetary Fund and World Bank estimate that at least eight countries, most of them in Africa, have unsustainable debt burdens and that a further 12 – including Tanzania – could easily fall into that category in the future. Hence the efforts which both organisations have devoted to coming up with an initiative which would put these countries' debt burdens back on a sustainable footing.

The initiative will be a contentious topic of discussion at the annual meetings of the IMF and World Bank in Washington over the next few days. There are plenty of problems which must be addressed before the scheme can be put into action. These include the conditions which countries must meet to qualify for help and – inevitably – how to fund it. The Fund and Bank estimate that to achieva sustainability, the debt burdens of these countries will hava to be reduced by between $5.6bn and $7.7bn, depending on their export performance.

Tanzania spends more than twice as much servicing its overseas debts as it does on primary health care

But how is the scheme supposed to work for one of these countries? To begin with the country must establish a three-year track record of sound policy performance, during which commercial lenders, multilateral institutions and the Paris Club of creditor governments would provide debt service relief under those arrangements which are already available. In tha third year, the candidate government would agree a preliminary macro-economic framework and analysis of its debt sustainability with the IMF and World Bank staffs.

If the staffs agreed that the country would still not be on course for debt sustainability even after the Paris Club had reduced its stock of eligible bilateral dabt by 67 per cent (under the so-called "Naples terms"), the IMF and World Bank boards would be asked to endorse this analysis and circulate it to other creditors and donors. The views of these creditors and donors would then be included in a final debt sustainability analysis to be agreed with the candidate government during a staff mission three months before the end of the three-year period.

After this mission, the staffs would prepare a "Heavily Indebted Poor Country Initiative Board Document". This would include a formal request for help from the candidate govarnment, a final debt sustainability analysis, targets for sustainabla debt-to-export and debt-service-to-export ratios and details of proposed contributions by government, commercial and multilateral creditors.

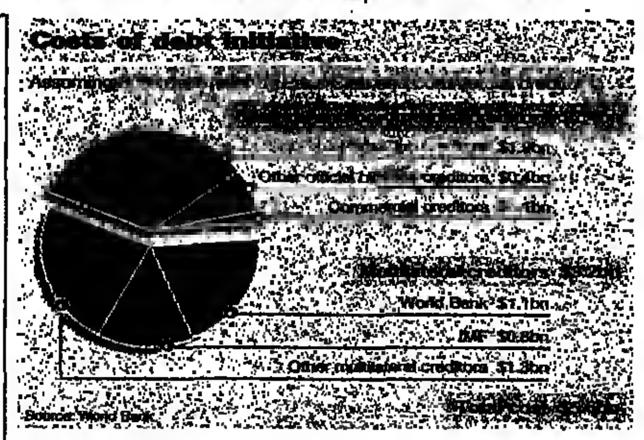
The IMF and World Bank boards would then endorse this document at the so-called "decision point". Both institutions would agree in principle to provide extra assistance through loans and grants during a further three-year period of good behaviour leading up to the so-called "completion point". The Paris Club would then meet within two months of the decision point to agree to reduce the country's debt service burden by up to 90 per cent over the second three-year period and then – if all goes well – to reduce the country's stock of Paris Club debt by the same amount at the completion point.

A "debt work-out" meeting would then be held to agree the contributions of other multilateral creditors, notably the development banks. The country's policy performance would then be scrutinised throughout the second three-year period, while the debt sustainability analyses would be updated to take into account unforeseen economic developments inside and outside the country.

Provided that the country's policy performance had remained acceptable, the Paris Club would carry out its stock-of-debt reduction at the completion point. Other government and commercial lenders would treat the debt owed to them in the same way. The multilateral institutions would then provide whatever grants and loans were necessary to reduce the country's debt burden to sustainable levels. Roughly speaking, this would imply a debt-to-export ratio of 200-250 per cent and a debt-service-to-export ratio of 20-25 per cent.

This is obviously a long-winded and complicated process. But the World Bank and IMF staffs argue that Uganda, for example, could be deemed to have established its first three-year track record already. If the initiative went ahead, the preliminary debt sustainability analysis could therefore be prepared by Novembar and the decision point reached next spring.

At the completion point in spring 2000 the IMF would agree to provide grants and loans sufficient to reduce the net present value of Uganda's borrowings by $75m, while the World Bank would reduce its claims by $155m and other multilateral creditors by $48m. But this is all still a long way away. For now at least, the initiative remains a proposal rather than a reality.



Possible timing of decision points

	End 1996	End 1997	End 1998	End 1999	Beyond 1999
MULTILATERAL RELIEF LIKELY	Uganda Bolivia	Ethiopia	Guinea-Bissau	Mozambique Zambia Niger	Burundi Sao Tome & Principe Zaire Rwanda
MULTILATERAL RELIEF UNLIKELY	Guyana	Cote d'Ivoire	Nicaragua Cameroon	Congo Madagascar Tanzania	Myanmar
NOT CLASSIFIED	Liberia, Nigeria, Somalia and Sudan				

Source: IMF/World Bank "Costings" Paper

Conflict looms

Continued from page 23

per cent receive 80 per cent or more of their income from government, while less than a third receive money from private pensions.

In Mr Thurow's view, this anormous transfer of resources has given the elderly in countries such as the US even more power, because it has made many of them one-issua voters: the issue being whether government increases or decreases their monthly pension payments or health care benefits. "In democracies, one-issue voters have a disproportionate impact on the political process, since they do not split their votes because of conflicting interests in other issues," he says.

Kenichi Ohmae, a Japanese theorist, is equally pessimistic about the young's chances of forcing change in Japan, which is facing the fastest greying of its population of any industrial country. Withont reform, the OECD predicts that ageing will increase public spending on pensions and health care by 7 per cent of GDP by 2020. Yet Mr Ohmae does not think policies will change as long as only one quarter of 25-year-olds in Japan regularly vote compared with a voting rate of about two-thirds of the over-60s.

"Politicians and the bureaucrats always favour groups that vote," he says. "In this case, that means robbing youngsters to give to the elderly. Young people in Japan are beginning to realise this, and want to participate more in politics, but at the moment none of the parties reflect their interests or show any sense of knowing what to do."

In countries such as China, workers faced with unreasonable pension demands ara voting with their feet, by escaping from state enterprises or, most often, simply avoiding payment. Many Chinese municipalities have reported a sharp drop in pension compliance rates – from 90 per cent in the early 1990s to 80, sometimes 70 per cent in the first half of 1996. Young people in developed countries rarely have this option. But though the odds are against them, it is hard to believe that they will continue to let their parents spend an ever larger share of their incomes without a fight.

* *The Future of Capitalism*, Nicholas Brealey Publishing, 1996.

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■ **Post-conflict reconstruction:** by Graham Bowley

Prevention is better than cure

Peacekeeping forces in 16 countries cost the world a total of $3bn in 1995

Grozny's charred and levelled ruins, Bosnia'e destroyed cities, Gaza's milling crowds staring distrustfully through barbed wire at their Israeli antagonists, and Rwanda's mountains of dead are testament to the waste that conflict and war inflicts on societies and economies.

According to the World Bank, there have been more internal conflicts, such as civil wars or insurgencies, in the world during the past 20 years than at any time this century. Fifteen of the 20 poorest countries in the world have experienced large conflicts since 1980.

The proliferation of conflicts across the globe, in Africa, the Middle East, the former Yugoslavia, and in Northern Ireland, and the huge costs that war has brought to these regions, have pushed the problem of post-conflict reconstruction to the forefront of the development agenda.

Development institutions such as the World Bank in Washington have begun to recognise the need for urgency in addressing, as soon as the guns have fallen silent and sometimes before, the costs of conflict to physical and human capital, the damage to the social fabric, and the weakening of trust and the rule of law.

Such institutions have an important role to play in kick-starting new activity in war-ravaged regions – a role emphasised at the 1995 summit of the Group of Seven leading countries in Halifax.

According to Steven Holtzman, a social scientist specialising in post-conflict reconstruction at the World Bank, an important issue for development institutions is to ensure that aid is used properly and allows countries to begin to recover in a sustainable fashion. "Humanitarian aid without sustainable paths forward represents an increasingly expensive Band-aid," he said. For example, last year peacekeeping forces in 16 countries cost the world $3bn. But this repreeents "nothing more than a security framework which cannot alone facilitate a transition out of war," he says.

The World Bank has committed resources in Bosnia and Hercegovina, in the Weet Bank and Gaza, in Haiti, and in Angola, Ethiopia, Uganda and Mozambique.

Alone, or in tandem with organisations such as the UN and EU, it has pledged funds and extended credit lines to help develop power and transport schemes, to restart production, rebuild government institutions and to reconstruct water systems and schools.

In many places this is a useful start. But often the costs are huge. According to Mr Holtzman, estimates of the costs of destruction from the civil war in Lebanon have ranged upwards of $25bn. During the strife in Rwanda, it was estimated that perhaps as much as a decade of outside investment was lost in a period of three months. As e result, greater emphasis is now being placed in the development ageoda on prevention of conflicts and damage limitation.

But institutions such as the World Bank also recognise that their intervention in conflicts can eometimes exacerbate the problems. "Myopic or inadequately considered development policies, often urged on or initiated by outside actors, including the World Bank, have either failed to provide the tools to dampen conflict or in some cases may have actually catalysed societal breakdown," said Mr Holtzman. Policy must primarily therefore be guided by the dictum "do no harm", he said.

Another problem which could exacerbate conflicts is the tendency of the international community to focus its political will more strongly on some countries. A point in case is the way in which much of the world's efforts were directed at solving the conflict in Yugoslavia, yet the troubles in, for example, Liberia were allowed to simmer on.

One of the most painful problems for countries following war or conflict is how to cope with huge flows of displaced peoples who have fled warzones and who now wish to return to their homelands. For example, one in 11 people in sub-Saharan Africa has been displaced over the past 10 years. "This means whole societies have changed," said Mr Holtzman.

Economies must cope with the sudden arrival of armies of soldiers returning to civilian life who need to be absorbed into eociety. The clearing of landmines, and coping with the increased militarisation of eocieties and the relatively free availability of arms, have become pressing problems.

The winding down of huge military machines – as in Russia at present following the end of the Cold Wer and the collapse of the former Soviet Union – can also leave whole industries which relied on military spending irrelevant and redundant.

This can lead to painful restructuring, as companies and their workforces have to adjust to new patterns of demand and employment.

But before sustainable economic growth can resume, political stability must be ensured. Only when robust and popular political agreements are in place can the process of economic regeneration begin. Witness the energy with which thorough political solutions are being sought in Northern Ireland and the Middie East. And the importance assigned to Bosnia's first post-war elections this month.

Not only do advances on the political front diminish the chances of countries slipping back into the sbyss of war but they also bring closer the point when normal economic life can begin again and ensures it has a greater chance of lasting.

After a lasting political solution has been reached, reconstruction can take place in stages. Philip Poole, e Russia and eastern Europe specialist at Barings Bank in London, sees the rebuilding of Russia after the stresses of the cold war as so far following predictable stages. Russia'e experience may provide lessons for other countries.

According to Mr Poole, after e time of intense and tumultuous political change, there followed an equally unstable period of economic change as the Russian government struggled to bring inflation under control and stabilise the ronble. Mr Poole thinks that only now has sufficient stability been brought to the macroeconomy to allow the government to undertake the necessary reform and change in Russia's microeconomy.

"Corporate restructuring which has taken place elsewhere in eastern Europe has not happened yet in Russia although it is beginning to," he said. "Russia has come to a point of stability and we now move on to a new set of challenges."

The war-ravaged country can now begin reconstruction

■ **Bosnia:** by Laura Silber

Cautious hopes

The institutions and finance have been put in place for the recovery process to start

The international effort to help finance and manage the reconstruction of war ravaged Bosnia has been an act of faith from the moment of conception. It remains so following elections this month when ethnic parties swept the board among all three of the former warring communities.

The first drafts of what developed into a $5.4bn, four year, World Bank co-ordinated re-construction plan wore drawn up last year while Sarajevo was still besieged and the Dayton agreements, which halted the fighting and sent more than 50,000 troops from 36 nations to help implement the agreement, were not yet signed.

Milan Cvikl, a World Bank official then based in Warsaw and a Slovene by nationality, recalls slithering through the tunnel under Sarajevo's airport with draft proposals and taking part in planning sessions for a new central bank, o common currency and the general priorities for the reconstruction effort while shells from Bosnian Serb emplacements around the city were still crashing into nearby buildings.

Rory O'Sullivan, director of the World Bank mission in Sarajevo is confident that the reconstruction plan will meet the target of disbursing $800-900m this year. To date, $1.5bn pledged for 1996 has been committed by governments and other donors. Most of the projects have been in the Croat-Moslem federation area while those prepared for the Serb entity are hanging fire, a carrot for future good behaviour.

The US-brokered Dayton agreement created the basic pre-condition for reconstruction, an end to the fighting, and Ifor troops then separated the warring sides. But neither the resulting armed truce, nor the conduct and outcome of the elections, created the conditions required for millions of refugees to return and rebuild their own homes. Reconstruction for many still seems destined to mean reconstructing the former home of somebody else.

Much hangs on the willingness of the newly-elected leaders of the three ethnic communities to make the minimum politicol compromises required to re-forge transport, communications and other links between the Croat-Moslem federation and Republika Srpska, the Bosnian Serb entity, and on whatever military errangements are put in place to maintain peace during ond after the planned withdrawal of Ifor troops by the end of the year.

A few days before the elections the World Bank approved a $90m, low cost transition assistance credit, backed by another $20m from the Dutch government, to support the creation of federation-wide institutions in tax and customs administration, bank licensing and supervision, payments systems, and for the the implementation of uniform budgetary and inter-government fiscal policies and pension and health care provisions.

These are all crucial, technical areas. But in practice most powers affecting peoplea lives have been devolved to the Croat-Moslem federation and the Bosnian Serb entity and most of the reconstruction projects will need their blessing to be carried out.

The first session of the Bosnian porliament after elections is due to push through draft legislation setting up institutions such as a national bank and currency exchange mechanisms. It should also enact laws to give minimum substance to the over-arching Bosnian national government which is supposed to maintain the formal unity of Bosnia-Hercegovina. In recognition of the unpredictable political risks involved the World Bank offers a special low-cost political risk guarantee facility to encourage potential investors.

Before the war, Bosnia was essentially a farming country, interspersed with big industrial complexes set up for strategic reasona among the Bosnian hills and serving markets throughout the Yugoslav federation. Today huge tracts of rural Bosnia are dotted with burnt out homes and farms, and most of the the power plants and factories are idle or damaged, or both. Minefields and booby traps are among the worst legacies of the war and slowness in getting the mine clearance programme under way, in a country seeded with an estimated 6m mines remains a serious bottleneck.

The World Bank has allocated $1.4bn for projects in Republika Srpska and $3.7bn to the Moslem-Croat Federation. But restarting the factories depends not only on re-opening trade and other links between them but also the links with Serbia itself. The best hope here lies in the fact that Serbia's own economic rehabilitation depends partly on reforging the old economic ties which cut across the new political boundaries.

Richard Sklar, President Clinton's special envoy for reconstruction in Bosnia, is optimistic. "The international community will maintain security and its economic presence and will not let war restert. Over the next five years the infrastructure can be rebuilt," he says.

Much of the international aid effort is designed to help improve the efficiency of local administrations, foster the entrepreneurial spirit and improve morale. Mr Sklar has devised a three-part strategy focusing on "quick win" projects which cao be corried out swiftly and cheaply and other small scale projects which benefit local people and companies and provide tangible, visible evidence of recovery. Longer term, high visibility projects include re-opening the railway line from Sarajevo to the sea at Ploce and the restoration of damaged power plants. Given reasonable stability Mr O'Sullivan predicts that Bosnia could enjoy a 40-50 per cent growth rate over the next three to four years. "But if there is no political stability, we will walk away," he warns.

■ **Banking consolidation:** by George Graham

Pressure for change grows

New competitive forces may cause a thorough redrawing of the banking map

Fifteen years ago, the bank that boasted the highest real returns on capital was France's Crédit Lyonnais; today, Crédit Lyonnais has become a byword for banking disaster.

Most bankers are confident that they will not repeat the mistakes that laid Crédit Lyonnais low.

But a few wonder quietly whether their French rival might not be a warning of the fate that could befall whole swathes of the banking industry over the next decade.

Technological change has already brought about dramatic and readily visible changes in banking and financial services over the past 30 years: the plastic card has pushed aside the cheque book; the automated teller machine (ATM) has taken over from the cashier; electronic dealing systems have displaced the stock exchange floor.

But more recent changes, already well under way in countries such as the US and the UK but still barely begun in some parts of continental Europe, could produce a more thorough redrawing of the banking map.

Some of these changes are technological. The development of bulk computer processing and of electronic data transmission, for example, has allowed banks to move their back office operations away from individual branches to large remote centres. This has helped to bring real economies of scale to banking, an industry which traditionally has seen diseconomies set in at a very modest scale.

What makes these changes different in nature is the arrival of new and more entrepreneurial competitors in an already saturated marketplace.

Earlier developments such as the ATM were essentially tools for competition between banks. But the physical delivery of cash is one of the few services in which banks can still capitalise on their branch networks.

Today, many banks see the greatest threat to their future coming not from other banks but from software companies such as Microsoft, from telephone groups such as AT&T, or from retailers such as Marks and Spencer. They can deliver many kinds of financial service far more effectively than a bank branch.

But banking remains one of the most heavily regulated of all industries. Although the forces creating pressure for change are similar around the world, variations in the degree and nature of regulation in different countries have produced wide disparities in the responses to this pressure.

In the US, which still boasts more than 9,800 banks as a legacy of Depression-era laws which made it difficult for banks to operate in more than one state, change has manifested itself in a rapid and accelerating consolidation of the industry. Besides large-scale deals such as Chase Manhattan's merger with Chemical Bank or Wells Fargo's acquisition of First Interstate, the process has seen thousands of small savings institutions or community banks absorbed by larger regional banks.

The US's relatively unregulated labour market makes it easier for banks to realise cost savings by merging with each other. Merger specialists use a rule of thumb that a merger between two banks in the same market ought to yield savings equivalent to 40 per cent of the cost base of the smaller bank.

The UK, meanwhile, has seen some consolidation in the traditional banking sector, through the acquisition of TSB by Lloyds Bank. The most remarkable change, however, has come among the mutually-owned building societies, which are rapidly merging, being taken over or demutualising.

But even without changes in corporate structure, the leading UK clearing banks have still shed 19 per cent of their staff and closed 18 per cent of their branches over the past five years.

Financial crisis has produced accelerated change in countries such as Sweden, and may gradually do the same in Japan, where $17.8bn of aggregate losses last year have forced banks to reappraise their strategies.

But in much of continental Europe, consolidation has been much slower. In France, even the Crédit Lyonnais debacle has prompted only the most minimal restructuring in a market that is generally agreed to have massive overcapacity. Although Crédit Lyonnais itself is planning to shed some 5,000 jobs over the next two years, the government remains unwilling to accept the need for more swingeing rationalisation.

In Germany, some analysts have seen Deutsche Bank's recent acquisition of a stake in Bayerische Vereinsbank as a portent, but the sector generally agreed to be most in need of rationalisation is the savings banks, whose regional or local government ownership makes such rationalisation even more difficult.

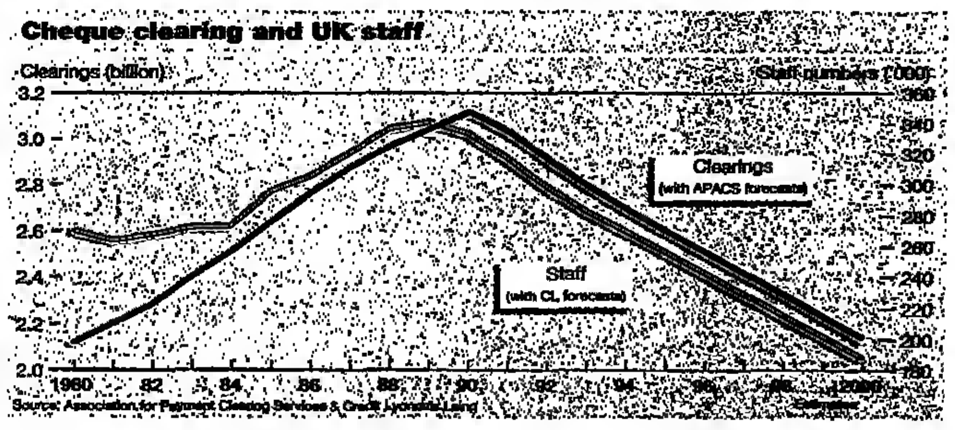
Similar problems affect the cantonal banks in Switzerland, but two of the big three Swiss banks, Credit Suisse and Swiss Bank Corp, have recently undertaken significant internal restructurings under the guidance of the McKinsey management consultancy.

This kind of change is likely to have to go much farther, however, if banks are to meet the new competitive pressures they now face.

Cost per transaction by channel

Channel		Cost/Transaction
Branch	Full-service	$1.07
Telephone	Average	$0.54
ATM	Full-service	$0.27
PC Banking	3rd party software	$0.015
Internet	World wide web	$0.01

Source: American Banking Association; Booz-Allen Hamilton



■ **Currency co-operation in Asia:** by Peter Montagnon

The start of something big

Banks in the region are acting together to ensure orderly market development

When the Thai baht came under sudden pressure at the start of August, the Bank of Thailand broke with its normal practice and intervened in Hong Kong and Singapore.

Its action, which helped the Thai currency to rally, is a sign both of the growing internationalisation of trading in Asian currencies and of the growing sophistication of the central banks that manage them.

Regional currency trading has become big business in Asia, particularly in Singapore, where investors and banks have sought to profit from the high interest rates available on many units and their traditional stability against the dollar.

This means, dealers say, that central banks have to look outside their own boundaries when seeking to influence the behaviour of their currencies in the market.

"There is a growing recognition that the market is no longer confined to on-shore trading," says Andrew Fung, regional treasury economist, at Standard Chartered in Singapore.

Especially since the Mexican shock of early 1995 when several Asian currencies also came under attack, the pressure for greater cooperation between Asian central banks has been growing. Monetary authorities have come round to the view that stable currencies are important and that competitive devaluations to encourage exports and investment flows would damage the region's interests.

Over the past year this has given rise to a number of institutional developments. In November 1995, the Hong Kong Monetary Authority announced that it had reached agreement with the central banks of Malaysia, Indonesia and Thailand to establish repurchase arrangements that would increase their intervention firepower.

Under these arrangements the central banks can borrow dollars from each other as long as they provide collateral in the form of US government securities. That enables them to raise extra liquidity at short notice without having to liquidate their securities holdings.

Subsequently, in February this year, the Bank of Japan reached agreement with the authorities in Hong Kong and Singapore that they would intervene on its behalf to influence the dollar/yen rate outside Japan.

Such intervention would not be concerted, as any action by the authorities of Hong Kong and Singapore would be for the account of the Bank of Japan, but again it broadens the reach of central banks to markets within the region.

Japan already had a similar arrangement with the Reserve Bank of Australia, but that was less relevant as, unlike Hong Kong and Singapore, Sydney is not a mainstream currency trading centre.

In April the Bank of Japan went a bit further. It joined the network of regional repurchase arrangements begun six months earlier. By that time the network also included Singapore and the Philippines.

In the rather secretive world of central banking, it is a bit difficult to tell what practical effect these arrangements have had. The Bank of Thailand did not have recourse to its repurchase facilities when it moved to ward off the attack on the baht in August.

According to Gerald Chan, head of foreign exchange sales at SBC Warburg in Singapore, the value of the repurchase arrangements is basically symbolic. They show the determination of the central banks to ensure that the markets develop in an orderly fashion.

But Mr Chan's view that the central banks have become much more familiar with the market is echoed by other bankers.

"They have more conversations with the market and with each other. The result is that they understand the market better than they used to, and are technically better equipped to deal with it," says Eddie Tan, country treasurer at Citibank in Singapore.

For the time being it looks as though that this kind of loose cooperation will remain more important than the further development of institutional links, even though there is pressure on that front too.

Regional currency trading has become big business in Asia, particularly in Singapore

The repurchase arrangements agreed last year are limited, compared with some arrangements elsewhere, such as those between countries in North America, or the European exchange rate mechanism.

The countries involved in the Asian scheme have not agreed to lend and borrow each other's currencies or to hold them in their reserves. If they were to do that, the intervention firepower would increase exponentially, but such an arrangement would require a great deal more mutual trust than currently exists.

The central banks are also far away from any commitment to maintain particular rates between the separate currencies of Asia. That would, in practice, involve a loss of sovereignty over exchange rate management which Asian governments would be loth to contemplate.

But pressure for a more formal development of institutional links is likely to continue. Bernie Fraser, governor of the Australian Reserve Bank, has long been a proponent of the idea of setting up an Asia-Pacific version of the Bank for International Settlements.

One advantage is that this could operate in the right regional time zone, unlike the "central-bankers' central bank" which is based in Switzerland. The multilateral institutions are not particularly well-equipped to cope with regional crises, he argues.

"I would not be surprised to see an Asian BIS institution established in the next three to five years," he said last month in Melbourne.

Another influential regional official who has argued in favour of closer institutional collaboration is Joseph Yam, chief executive of the Hong Kong Monetary Authority. He has pointed out that there are areas of mutual concern going beyond mere currency market management.

These include banking regulation, capital market development and infrastructure questions such as the development of real time payments systems.

A nucleus for such collaboration exists in the rather clumsily-named Executives Meeting of East Asian and Asia-Pacific Central Banks, a talking shop set up at the behest of Japan in 1991.

This group recently decided to establish permanent working groups to discuss improved cooperation, and the governors of the banks have agreed to meet at least once a year. But many will still require a lot of "persuading" to take the process further.

هكذا من الأصل

RECRUITMENT

Richard Donkin looks at two approaches to balancing work and home commitments

A family friendly workplace

It's good to see some people still have faith in UK companies. Consider this heart-warming statement from a new book: "Britain's world-class companies are providing their workers with excellent terms and conditions, investing in training and recognising that developing the commitment of people to the organisation requires more than warm words and a new mission statement."

Who could have said this? Has John Major dusted down his soap-box already, or was it some rose-tinted analysis from the Institute of Directors? The words were written by John Monks, general secretary of the Trades Union Congress, in his contribution to a book, *Building a Relational Society**.

The book's launch coincided with a debate at Church House, Westminster, on: "Work patterns and pressures have now become the single greatest factor in family breakdown." This may be overstating the dangers – the motion was lost – but it illustrates the strength of an important issue in western societies.

Two years ago, when sifting letters from redundant middle-managers, most in their 40s and 50s, I thought it would be only a matter of time before the economic cycle would reverse the trend. The UK had been emerging from recession for some time with unemployment steadily falling.

But the downsizing among larger companies, at least, is continuing. There appears to be a restructuring at the workplace in which older, more expensive employees, often with obsolete or technologically replaceable skills, take redundancy or early retirement. They are than replaced by cheaper, younger employees, or a piece of software or new contractual arrangement such as outsourcing.

This re-engineering cuts the wage bill and thus increases profits, at least in the short term. The human cost, becoming increasingly evident, is more stress, more work pressures and longer hours among many in work.

How are these changes impacting upon the family?

As Monks acknowledges, many good companies do care about employees. It is a point reinforced in the book by Clive Mather, chief information officer at Shell International. Where Monks and Mather differ, and where the debate needs to focus, is over what needs to be done to help people balance home and work life.

Monks and the TUC are emphatically in favour of Europe-wide social legislation to regulate employment, including the adoption of the working-time directive which would limit an individual's working week to 48 hours. Mather argues employers can lead the way by introducing family-friendly policies that extend people's choice to work the hours that suit them best.

What they seem agreed upon is that the employer-employee relationship is about something more than a contract which simply provides pay in return for work. "A job is more than simply a formal contract between a worker and an employer," Monks writes. "It is on the quality of this relationship that the success of the business depends."

He complains of the widening differentials between those with executive pay packages and the majority of the workers. This trend is related to downsizing. Some top executives boosted their bonuses on the increased profits resulting from redundancy programmes and a leaner workforce.

"To complain about this is not to indulge in the politics of envy, as some would claim," says Monks. "It is the natural reaction of people with a genuine and justifiable grievance."

Instead of limiting bonuses or pegging them to tougher performance criteria, as suggested by the Greenbury report, the latest crop of long-term incentive schemes appears to be paying higher rewards than ever.

Now accountancy firms are devising new tax-effective schemes – deferred convertible share plans – designed to allow executives to buy a cheaper class of shares and convert them into ordinary shares at a later date if the company has met certain targets. Is it not divisive to create any scheme that is available to only one class of employee?

If companies were as inventive in introducing new revenue streams and product lines as their pay consultants have been in devising ever more attractive executive bonus schemes the increasing differentials might be easier to justify.

CV confidence

When you reply to an advertisement through an employment agency, how sure can you be that the agency will treat your curriculum vitae in confidence? How would you feel if you discovered it had been pushed out to other prospective employers without your knowledge?

The discovery was particularly embarrassing for John Wall, a chartered accountant at ATW Group, an advertising company, who applied for a job with a larger salary advertised through the Hall Alexander agency, a member of the Harrison Willis Group. Shortly afterwards he discovered that a letter had been sent by Hall Alexander to the chief executive of the ATW Group informing him of a potential job candidate that he might wish to consider, namely one John Wall. It even named Wall's employer as ATW.

When Wall demanded an explanation, Hall Alexander said there had been a "cock-up". It was the normal policy of the agency to request an applicant's permission to send out a CV to a small number of named companies, it said.

An exchange of letters between Wall and Lawrence Smith, chairman of Harrison Willis, elicited an admission by Smith of "inefficiency and stupidity" by one of his executives that had been "completely inexcusable". Smith offered an ex-gratia payment of £500 to Wall or to a charity of his choice, which Wall declined.

However isolated this incident was at Harrison Willis, Roger Roberts at CV Concern says it has become commonplace for employment agencies to send batches of CVs to potential clients without candidates' permission. Roberts, who runs his own employment agency, formed CV Concern to highlight this type of abuse.

It arose because some employers pay "introduction fees" for a batch of CVe on the basis of first come, first served. If, for example, the fee is 20 per cent of a job with a salary of £20,000 – not untypical – it can be seen that the business is extremely lucrative. This client policy puts pressure on the agencies with the result that CVs are sometimes sent out without any authorisation. The companies are doing nothing illegal although they may well be in breach of contract or their duty of care under civil law.

What seems puzzling is why such a group as CV Concern should be necessary when the Federation of Recruitment and Employment Services, an industry body with 3,600 members, has just introduced a complaints and disciplinary procedure which should deal with such abuses. Christine Little, chief executive of Fres, argues that the problem is less acute than CV Concern would suggest.

However, taking a tough line over such complaints would help the federation strengthen its brand.

CV Concern, +44 171 4349996

**Building a Relational Society: New Priorities for Public Policy, edited by Nicola Baker. Arena, £15.*

BANKING FINANCE & GENERAL APPOINTMENTS

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Our Client is a world-wide leader in the provision of investment banking advisory services to the telecoms and media sectors. Specialising in cable television, broadcasting, radio, publishing, telecommunications and entertainment, it has successfully completed more than US$12 billion in transactions since its inception. A network of professionals in 12 offices throughout the US, Europe and Asia has led to its pioneering the globalisation of the most dynamic growth areas in the world today.

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Successful candidates will be involved in the execution and marketing of investment banking business, specifically M&A and strategic advisory work, valuations, financings, and restructurings. The positions will be based in Germany, the centre of our Client's European operations, and will involve considerable travel working on cross-border transactions.

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- Minimum 2 years investment banking/corporate finance experience, with a background in media/telecoms an advantage.
- Fluent written and spoken German.
- Excellent knowledge of cash-flow forecasting, modelling and the application of business valuation methodology.
- Good presentation skills and an entrepreneurial, creative outlook.
- Outstanding academic record.

The positions represent exceptional opportunities to be at the centre of one of the most active areas within corporate finance. Interested candidates should contact *Christopher Squire* at the address below.

Jonathan Wren & Co Limited
Financial Recruitment Consultants
No 1 New Street, London EC2M 4TP

JONATHAN WREN

b a n k i n g

Telephone: 0171 623 1266
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- Experience of organising and participating in research trips.

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A leading Scandinavian stockbroker, currently establishing a London office, invites applications for a position as editor/production co-ordinator for its research team. Candidates are likely to have a financial journalist background, with experience in understanding and editing financial information. The Successful applicant will have a broad knowledge of the securities market and have a high degree of PC literacy and layout skills.

The stockbroker will be opening up a representative office in London in late 1996. Initially, some 6-10 analysts and sales traders will be employed in its London staff. Back office functions and technical support, as well as most of the analyses department, is and will be located in Scandinavia. Over the next few years, it is expected that the office will grow considerably in size, as the London-based business volume has been increasing rapidly over the last few years.

The stockbroker's strategy is based on a leading position in research, secondary trading and investment banking to its country of origin. Commitment to impartial and high-quality research has been among the main factors responsible for its recent growth.

The editor will be working closely with the rest of the research team to create, develop and present research ideas in a product format suited to the UK investor market. While the position involves considerable responsibility and a demanding work schedule, the work atmosphere is friendly and flexible. In the relatively small London office, every staff member will be an important partner in developing the company's UK presence.

The editor will not be required to do any translation, but will work with analysts to prepare presentations and papers from raw material supplied by the research staff. The editor will also be responsible for the editing of a daily newsletter, and some experience with layout will be welcome.

Salary and financial conditions will be competitive and performance-based, and the editor will have considerable independence and ability to structure and develop the job according to needs and individual wishes.

The stockbroker is an equal opportunity employer, and welcomes applications from both men and women.

Please apply with a curriculum vitae and covering letter to:

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The position will involve:
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You will need a strong background in research and the ability to design and implement projects applied to current policy issues. You will also need to take an active role in the management of 13 research staff. Strong presentation skills are essential and proven experience in presenting financial material to senior policy makers will be an advantage.

Salary and benefits will be competitive. We are also happy to consider secondments from other public or private sector organisations.

Please apply in writing with a full CV to:
Janet Hayes, Monetary Stability Personnel Unit
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CANDIDATES SHOULD SEND THEIR CVS TO:
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POLAND
Banking Resource Unit
Banking Consultant

As part of the British Know How Fund's Banking Resource Unit in Warsaw, you will help Polish banks to develop core capabilities in the strategic areas of business strategy, business development, and organisational arrangements conducive to meeting realistic banking business goals. Advising Polish banks on management information requirements, profit centre development, personnel incentivisation and management, and assisting them to define their control procedures, internal audit and operations will also fall within your remit.

You will be a commercial banker with at least 15 years' varied experience which must include line management either in the headquarters of a full service commercial bank or management of a large branch of a full service commercial bank together with significant exposure to such a bank's head office operations. The ability to work outside the British/Western banking culture without back up of a large international organisation is essential as are good interpersonal and communications skills. Experience of giving on the job or classroom training would be an advantage coupled with experience in Poland or another Central European or FSU economy in transition. The ability to speak Polish would be an added advantage.

The position will be resident full-time in Warsaw for two years.

An attractive benefits package is available up to £80K subject to negotiation regarding basic pay, accommodation and paid return visits to the UK.

Candidates should either be nationals of Member States of the European Economic Area (EEA), or Commonwealth citizens who have an established right of abode and the right to work in the United Kingdom.

The closing date for receipt of completed applications is 18 October 1996.

For further details and application form, please write to Appointments Officer, Ref No AH360/AOE/FT, Abercrombie House, Eaglesham Road, East Kilbride, Glasgow G75 8EA, or telephone 01355 843626.

ODA is committed to a policy of equal opportunities and applications for this post are sought from both men and women.

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To apply, please post or fax your full curriculum vitae, including details of current remuneration, to either Sean Carr or Richard Lyons. Applications will only be forwarded to this client. Please indicate clearly any organisation to which your details should not be sent.

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Monitoring the City

The prime objective of IMRO, as a leading financial services regulator, is to protect investors by setting and promoting standards for the investment firms it regulates. We are currently looking for individuals with an interest in investor protection to join our Monitoring department.

We are particularly interested in hearing from those with a regulatory or compliance background or in-depth knowledge of the fund management industry. We are also looking for qualified accountants with experience of auditing investment management companies.

You will be part of a team responsible for visiting IMRO regulated firms to identify possible areas of investor risk and recommend appropriate action. This will involve working closely with the senior management and staff of regulated firms to assess their investment practices and dealing with any compliance issues that arise.

This is an exciting opportunity to join an organisation within an important sector of the financial services industry. We can also offer competitive starting salaries and an attractive benefits package, together with excellent opportunities for training and development.

To apply, please forward a detailed CV, including current salary details to, Debbie Willis, Human Resources Officer, IMRO, Lloyds Chambers, 1 Portsoken Street, London E1 8BT. Please quote reference FT96/09.

IMRO (Investment Management Regulatory Organisation Limited) regulates approximately 1,100 firms and 18,000 individuals. The firms include fund management organisations (including pension funds and investment trusts), managers and trustees of authorised unit trusts and banks. Funds managed by IMRO regulated firms have a total value in excess of £1,000 billion.

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The Research Department of a leading global investment bank is looking to recruit at least two individuals to work as UK retail sector analysts. Our client has an excellent reputation for both its UK research product and in particular for its retailing analysis. In addition, its research is highly regarded internationally on the European, Asian, Japanese and Latin American markets. Our client is looking to the successful applicants to maintain not only their excellent reputation for retailing analysis but to develop the product further and work closely with corporate finance in maintaining existing relationships and establishing new ones. The marketing aspects of the work will provide opportunity for global travel.

Applicants should be educated to degree level or beyond. Whilst knowledge of the securities industry would be advantageous, of far more importance is an in-depth understanding of the UK retail industry. For applicants originating from outside the securities industry such experience will have been gained typically from one of the following areas: a management consultancy firm, where the applicant will have had responsibility for the retail sector or alternatively a corporate finance department where they will have had similar responsibilities. Equally, applicants may have gained their expertise whilst working for UK retail groups where ideally they will have had regular dealings with the City in such departments as finance, marketing, strategy or investor relations.

The successful applicants will demonstrate well developed communication skills and be able to interact effectively with the most senior levels of management both internally and within some of the world's largest investment management groups. A key requirement is the ability to work well with others and be a willing team player.

This is a tremendous opportunity for energetic and proactive individuals.

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(Banking and derivatives)
for the Management Control Unit

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The above duties will involve close cooperation with the Bank's other Directorates.

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Languages: Very good command of either English or French and sound knowledge of the other.

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Manager, Corporate Finance

Investment Banking

Riyadh

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The Saudi British Bank

Our client is a worldwide leader within the field of telecommunications and they are now expanding ...

INTERNATIONAL CUSTOMER BUSINESS DEVELOPMENT EXECUTIVE

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■ The goal for this position is to assist our customers in becoming more successful in their business. The Executive shall gain a good working knowledge of our customers and their success criteria. The Executive will lead our customers to increase their cutting edge competencies by enhancing their strategic direction, marketing, segmentation, pricing etc.

Background:
■ The ideal candidate has a proven track record from the wireless/mobile business, preferably from an operator. Business and marketing skills are necessary, combined with a documented ability to establish and deepen business relationships and partnerships. Fluency in English is essential and Spanish preferable as well as a willingness to travel extensively.

BUSINESS CONSULTANTS
– Make the cellular operators more effective in their market –

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Responsibilities:
■ The ideal candidate's focus will include:
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  • product to market
  • customer service
  • distribution
- The performing of bench marking on the customers business processes
- Build up business cases – show success from other customers
- The offering of financial modelling
- Undertake business consultancy for customers e.g. establishing distribution channels, customer case centres etc.

Background:
■ The ideal candidate probably has an academic business degree and a proven track record in the planning and execution of business cases that has enhanced the customer results. He is either a successful consultant today with good international experience or a member of a senior management team in a high-tech company with complex market segments and distribution channels.

■ The candidate is analytical and operationally results driven and quite fearless in helping his customers to achieve their results.

OPERATOR AND MARKET COMMUNICATIONS CONSULTANT
– Joint advertising and internal communication –

■ The ideal candidate will pro-activly help the operators joint advertise with us. They will be helped by our expertise in marketing communications and the equity already built in our brand-name.

■ He/she will be responsible for the internal communication so that we can see what is happening on the marketplace and what value our customers place on our products.

Responsibilities:
■ The ideal candidate will:
- Drive all joint advertising
- Coordinate customer and agency
- Introduce joint advertising as a part of the sales process
- Improve internal knowledge of our customers
- Communicate internally with product management,- marketing and management, in regards to market requirements.

Background:
The candidate has a marketing degree and a proven track record in international marketing, including marketing communication.

The ideal candidate is analytical and is known as a very good communicator. He is creative but also interested in driving for results.

For further information please contact Göran Fleber or Harald Torninger, Mercuri Urval, tel 46 (0)8 696 03 50.

Please send your application before October 11, 1996, signed "HT 547" to Mercuri Urval, Box 1343, S-111 83 Stockholm, Sweden.

Mercuri Urval

Credit Risk Analysts
Capital Markets

London and Hong Kong — **£ Attractive Package**

Our client is the investment banking arm of a highly successful international bank with assets in excess of US$ 200 billion. With a team of highly qualified Sales, Trading and Corporate Finance specialists, they maintain their competitive edge by providing comprehensive and timely solutions to their customers' sophisticated financial needs. Continued expansion in both Europe and Asia has created requirements for talented credit professionals in both London and Hong Kong.

The roles:
- Evaluation of potential counterparties, primarily for capital markets and derivative products, preparation and presentation of credit applications to the Credit Committee and continuous monitoring of counterparty risks and markets.
- Point of contact for dealers and marketers, highlighting likely credit issues and advising on structures.
- Developing research resources.
- Country risk analysis.

Candidates should have a minimum of five years relevant experience, gained in a securities firm/investment bank, or within the treasury and capital markets arm of an international bank.

The Hong Kong based role will initially start in London (for candidates currently based in Europe) and may be suitable for a Hong Kong national who wishes to return to Hong Kong to work.

For further information of either of these roles please contact Tim Smith on +44 (0) 171 269 2313 or write to him enclosing a full curriculum vitae, at Michael Page City, Page House, 39-41 Parker Street, London WC2B 5LH. Fax +44 (0) 171 405 9649.

Additionally, Des Pang may be contacted on 852 2530 2000 at Michael Page International, 2511 Two Pacific Place, 88 Queensway, Hong Kong. Fax 852 2530 2255.

Michael Page City
International Recruitment Consultants
London Paris Frankfurt Hong Kong Sydney

Bank of Montreal

Six figure package + bonus | *Dublin*

General Manager

New role to spearhead the development of the Bank's offshore subsidiary in Dublin. Founded in 1817 the Bank of Montreal is Canada's oldest bank with total assets of C$152bn and 30,000+ employees. It is recognised as a wholly diversified financial services institution – amongst the largest in North America. Its European presence has historically been located in London, but a new international operation will open in Dublin at the end of 1996. This wholly owned subsidiary will manage and develop a substantial money market book, a managed futures service and corporate banking. This is a major opportunity for personal and professional development in a fast-moving, high-growth environment.

THE ROLE

- Responsible to the General Manager & SVP – Europe for managing a small team and successfully controlling and developing individual lines of business.
- Identifying growth opportunities across Europe, planning and managing their implementation. Growing and developing an effective team, of mainly local staff, to complement business success.
- Representing the Bank in Ireland to statutory and commercial organisations. Adhering to the highest standards of regulatory requirements.

THE QUALIFICATIONS

- Talented, graduate banker with a fast-track career in a blue-chip commercial or investment bank. Well-developed skills in management, business development or financial control with high potential for growth into a significant general management role. Ideally international experience and language skills.
- Disciplined analyst and planner with mature commercial judgement. Excellent communication and relationship building skills with entrepreneurial flair. A natural business builder.
- Stature and presence to represent the Bank in influential forums. High levels of energy and leadership with the appetite for a real challenge.

Leeds 0113 2307774
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Selector Europe
Spencer Stuart

Please reply with full details to:
Selector Europe, Ref. F32030961,
16 Connaught Place,
London W2 2ED

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Capital Markets Risk Financing

This brand new venture by a premier global insurance firm requires the outstanding leadership of a financial engineer. The objective is to bring together the disciplines of insurance and capital markets by providing an advisory service packaging insurance and financial risk solutions to the major catastrophe exposures of the firm's worldwide clients. This imaginative initiative is supported at the highest levels of senior management and its success will put the firm at the forefront of its peer group.

THE ROLE

- Lead the product development process bringing a capital markets focus to financial and physical catastrophe risk transfer beyond traditional parameters.
- Support the company's senior directors in harnessing the firm's global Fortune 500 relationships by establishing clients' risk management requirements and determining innovative solutions.
- Present these complex concepts to the investment banks and other derivative providers and consequently intermediate in the handling of major transactions.

THE QUALIFICATIONS

- Bright graduate, preferably with MBA or PhD, and a minimum of five years' financial engineering experience in a bank or corporate covering risk management or quantitative derivative advisory techniques. Energy experience advantageous.
- Highly analytical mind capable of delivering often complex imaginative solutions to financial issues. Demonstrable project management skills with the tenacity to bring transactions to fruition.
- Strong personality with the determination to lead a new initiative. Excellent communication skills with the personal style to generate credibility with the company, its clients and the broader financial community.

Leeds 0113 2307774
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Selector Europe
Spencer Stuart

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16 Connaught Place,
London W2 2ED

£ Negotiable + bonus | *Executive Search* | *London*

Global Financial Services Research

Spencer Stuart is one of the worldwide leaders in executive search with an outstanding record of growth built on the foundations of a highly collegiate structure and quality consulting team. The firm has a global financial services practice with dedicated consultants and research associates in all the key financial centres. London acts as one of the coordinating offices for global activity and our continuous growth demands a further investment in dedicated research.

THE ROLE

- Provide sector-driven research on senior level exclusive retained mandates on behalf of a select number of clients in investment banking, asset management, insurance, consumer financial services and real estate.
- Work alongside the financial services consultants on the search process attending client briefings and then playing a pivotal role in identifying, attracting and appointing key executives.
- Provide proactive support to the practice by constantly monitoring market trends and developments across the industry and the respective product and functional disciplines.

THE QUALIFICATIONS

- Mature graduate with at least five years' commercial experience or exposure to the financial services industry. Language skills and computer literacy would be an advantage.
- Proven project management skills with a diligent and resilient attitude. Natural curiosity combined with a tenacious and energetic approach.
- Excellent written and verbal communication skills with proven ability to work in a cross-cultural environment. Stature and presence to engender credibility at senior management level both with clients and across the Spencer Stuart network.

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To £70,000 + attractive benefits | *UK Private Equity Firm* | *London*

Private Equity - Investment Manager

Exciting opportunity to contribute to the strategic growth of one of the leading management buyout arrangers in the UK. The organisation has an impressive track record and is seeking to expand its team to help invest new funds. Primarily focused on leading UK management buyouts and buy-ins, the Group is also expanding through an affiliate network across Continental Europe.

THE ROLE

- Working as part of a highly focused investment team, take responsibility for all aspects of due diligence, financial evaluations and legal negotiations.
- Actively monitor the performance of investee companies, contributing constructively to their management and sitting on their boards in due course.
- Rapidly gain an understanding of the dynamics of the Private Equity markets so as to move quickly into deal origination.

THE QUALIFICATIONS

- Aged 25 - 35, preferably ACA or MBA. Analytical, numerate, computer literate. Must have relevant experience in Private Equity, Corporate Recovery, Corporate Development or Investment Banking.
- Strategic vision, commercial acumen and an instinct for exploiting market opportunities. Strong transaction management skills.
- Stature and credibility to work with investee companies and other members of the team. Highly motivated, energetic and robust team player with good interpersonal skills and the ambition and determination to succeed.

Leeds 0113 2307774
London 0171 493 1238
Manchester 0161 499 1700

Selector Europe
Spencer Stuart

Please reply with full details to:
Selector Europe, Ref. F82180961,
16 Connaught Place,
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LEADING EUROPEAN INVESTMENT BANK

INTERNATIONAL BUSINESS DEVELOPMENT

LONDON | EXCELLENT PACKAGE

This leading European Investment Bank operates on a global basis in 60 countries. It offers a full range of investment banking activities including Equity, Fixed Income, M&A, Corporate Banking, Asset Management and Securities Services.

The Business Development Group is responsible for developing new and existing client relationships through the targeted coverage of companies throughout Europe. Operating at the highest levels, its role is to facilitate the marketing of the entire range of investment banking products. Integral to the Group is a team of Associates who take a leading role in spotting opportunities, generating ideas, contributing to proposals and managing the follow-through. These Associates combine strong analytical and evaluative skills with an instinct for marketing and creativity. Whilst working closely as a team across the range of projects, they also develop an in-depth knowledge of specific sectors and/or geographic markets.

Two high calibre Associates are sought to strengthen this group. The scope of both roles is Europe-wide and therefore regular travel is involved. Specifically, the vacancies are:

FINANCIAL INSTITUTIONS ASSOCIATE

To focus on the insurance, banking and finance sector, with a particular focus on Germany and Northern Europe. A detailed knowledge of the insurance and/or banking industries is essential as well as fluency in German.

CORPORATE FINANCE ASSOCIATE

To work initially across a wide variety of geographic and industry sectors, before developing a specific area of expertise.

The successful candidates will possess the following:

- ACA or significant analytical experience at a similar level;
- a commercial and innovative outlook;
- fluency in at least two European languages, one of which must be English;
- a track record of managing their own development;
- an excellent academic record;
- the interpersonal skills to succeed in a client focused environment;
- a clear commitment to a career in investment banking.

Interested applicants should contact **Michael Clarke** or **James Rust** at **Robert Walters Associates** on **0171 379 3333**. Alternatively please send a copy of your CV, stating current remuneration to them at **25 Bedford Street, London, WC2E 9HP**, or fax them on **0171 915 8714** or Internet: michael.clarke@robertwalters.com

ROBERT WALTERS ASSOCIATES

FS30091

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Credit and Marketing Officer

Arab National Bank, a leading Saudi Arabian bank, is seeking to recruit an additional member for its London based marketing team. The position will involve frequent travel throughout Europe and to Saudi Arabia and will be primarily focussed on the provision of support for trade and capital flows between those two areas. Candidates should have well established credit skills and a solid marketing background. Although the position will not be that of a trade finance specialist, some general experience of trade finance products will be preferred.

Attractive salary and usual benefits will be offered.

Replies in confidence to: Karen Cleary, Arab National Bank, P.O. Box 2LB, 47 Seymour Street, London W1A 2LB.

The Senior Advisory Group

The Brussels based

bioindustries seeks a

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[illegible]

APPOINTMENTS ADVERTISING

appears in the UK edition every Monday, Wednesday & Thursday and in the International edition every Friday.

For further information please contact:
Toby Finden-Crofts
+44 0171 873 3456

Investment Fund Sales

SW1

Nikko Europe, a leading stockbroker and investment bank, is expanding its activities in the marketing and sale of a range of Luxembourg based investment funds.

A person is sought who is experienced in selling funds to professional intermediaries in the UK market. As part of a small team the successful candidate will promote the Nikko Global Umbrella Fund and other Japanese and Asian funds.

Experience should have been gained with one of the larger UK based investment houses preferably one with exposure to offshore funds, including Luxembourg.

We seek a person motivated to maximise the sales potential of each fund. To reward motivation the remuneration package will be strongly linked to performance.

NIKKO

To apply please write enclosing a full cv to Alastair Wood, Nikko Europe Plc, 55 Victoria Street, London SW1H 0EU. Applications will be accepted until Wednesday 9 October 1996.

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The FT can help you reach additional business readers in France. Our link with the French business newspaper, Les Echos, gives you a unique recruitment advertising opportunity to capitalise on the FT's European readership and to further target the French business world. For information on rates and further details please telephone: Toby Finden-Crofts on +44 171 873 3456

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required for DEM Capital Markets section. 5 years Capital Market experience minimum. Must be fluent in German with proven track record and established customer base. Salary negotiable.

Please apply to:
Box A5698, Financial Times,
One Southwark Bridge, London SE1 9HL

UK EQUITY SALES

A City based **private client** securities firm is offering a limited number of trainee positions on its **equities sales** team.

Applicants will be required to achieve a pass in the Securities Represenattive examination prior to a formal offer of employment being made. Individuals who pass the examination will be considered for supervised positions on the **equities sales** team.

To apply, please write with full education and career details to:

Zbig Peterson, Director, Danesfield Securities Ltd.,
1st Floor, 44 Worship Street, London EC2A 2EA

ACCOUNTANCY APPOINTMENTS

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GE Capital is one of the world's largest and most successful financial services companies, part of GE's $70billion global enterprise. In Europe, GE Capital's 19 core businesses range from credit cards to equity capital, aircraft leasing to real estate, employing more than 15,000 people. Setting and regularly exceeding ambitious targets for growth, GE Capital has acquired on average one European company every fortnight in the past two years and confidently expects to double its turnover by the year 2000 - and we need people with the energy and talent to help us do it.

In particular, GE Capital needs a number of highly talented individuals to join its London-based European business development teams. Focusing particularly on the high growth German market, you will handle complete projects from identification of targets and due diligence through to completion of acquisitions and investment across Europe. While looking for companies to complement and grow our existing portfolio, you will also examine business opportunities that could take GE Capital in entirely new directions. With access to the decision makers, if you convince us that a venture is viable, we'll back your judgement with hard investment.

Working closely with GE Capital's European President and the Directors of Business Development throughout GE Capital's European companies, you will be surrounded by some of the brightest business minds of your generation. The strength of the team lies in the combination of talented people from different countries and professional backgrounds pooling and benefiting from each other's knowledge and experience. The pace of work demands flexibility and resilience, but if you have the right blend of intellect and business flair, it is a unique opportunity; after around 18 months in the team, individuals typically move on into business leadership roles.

You will already be an exceptional performer in your career. Probably with an MBA, certainly with a track record of academic success, you could be working with one of the world's leading consulting groups, a top merchant bank or a major multinational. With experience in mergers and acquisitions, and the ability to present recommendations to decision-makers with clarity and conviction, you must also be fluent in English and ideally German, although any other European language will be useful. Our exceptionally steep growth curve means that we need to recruit individuals at varying levels of salary and experience, but all of them will share the ambition and potential to grow with us.

Salary and benefits are pitched to attract future GE leaders of the very highest quality. We are determined to appoint individuals who can move into influential roles with GE companies throughout the world.

If you think you can meet the challenge, please fax or send your CV quoting current salary and package details and reference 178 to our retained consultants, Alderwick Consulting, 95 Fetter Lane, London EC4A 1EP. Fax (+44) 171 242 3560. For more information call them on (+44) 171 242 9191 (weekdays) or (+44) 181 467 1408 or 171 231 8272 (evenings and weekends). Any applications sent to GE direct will be forwarded to Alderwick Consulting.

GE is an equal opportunity employer

**Not connected with the English company of a similar name.*

GE Capital Europe

DIRECTOR FINANCE & OPERATIONS

£70,000 to £90,000

Our client is an International Blue Chip Organisation, highly respected for the quality of their products.

Continuous development of the business in new markets through merger, acquisition or joint venture has created this outstanding career opportunity.

Based in India, you will be a key member of the Board of Directors of a new joint venture company. Your role will be to provide the main interface with the group function in Europe, while ensuring the local provision of efficient and economic financial and logistical services.

This responsibility includes the control of all aspects of fiscal requirement, establishing both short and long term financial objectives and monitoring and evaluating company performance against budget.

Ideally, you will hold a degree in a financial management or an economics discipline. In addition, you should have 10 years' experience in controlling, treasury and accounting which includes at least 5 years in a management function.

Experience of a multi-national company and experience of business development in developing economic regions of the world, specifically Asia, will be a distinct advantage.

In addition to salary, the company offers the support and commitment expected of a highly reputable organisation, together with the opportunity for further personal development and the rewards of a highly visible and critical business role.

Please send your C.V. in strictest confidence to: Donald McCorquodale, Bernard Hodes, 241 St. Vincent Street, Glasgow G2 5QY, fax on 0141 248 6225, or call on 0141 248 3399 daytime and 0141 840 4580 evenings and at weekends.

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Coopers & Lybrand is one of the UK's leading accountancy and management consultancy organisations. Our Internal Audit Services Group has developed a reputation for outstanding service to its blue chip client base, and continuing business growth has created a need for further consultants.

Specialising in strategic planning, benchmarking and risk assessment for new and existing internal audit departments, much of the team's work is performed in 'strategic partnerships' with clients, where long term working relationships are fostered.

Suitable applicants will hold a recognised business qualification and have at least two years' experience within the internal review function of a leading plc or multinational.

As well as an outstanding academic and career record to date, candidates must possess proven project management, communication and technical abilities.

These roles also offer product development involvement in liaison with external professionals and other members of Coopers & Lybrand International. Opportunities for career progression, both in the UK and overseas, are therefore first class.

For further information, please contact our recruitment adviser Ken John on 0181 983 6406, or send a copy of your CV to Ken John & Co., Acre House, 69-76 Long Acre, London WC2E 9JH. Fax. 0181 983 0533. Direct applications, including those from other recruitment consultancies, will be forwarded to Ken John & Co. for consideration.

Solutions for Business | ○ business assurance ○ business recovery and insolvency ○ corporate finance ○ management consulting ○ tax and human resource advice

Coopers & Lybrand in the UK is a member of Coopers & Lybrand International, a limited liability association incorporated in Switzerland.

The traditional mobility of a qualified accountant has never been more evident as increasing job opportunities present themselves in the international market place. This is particularly the case in Australia where there is an increasing and sustained demand for accountants from all sectors of the accounting profession, particularly Financial services. Whether you are an Australian citizen returning or a UK qualified accountant planning to travel, Morgan & Banks – Australia's largest recruitment firm, is extremely well placed to unlock these doors of opportunity.

With offices in every state of Australia, New Zealand, Hong Kong and Singapore our client base covers a wide range of industry sectors including Banking, Finance, Retail, Telecommunications, IT, Engineering, Media, Management Consulting and Manufacturing... which when combined with our market leadership will ensure your successful placement in a worthwhile career development role.

SEMINAR

On the evenings of 8th and 9th October 1996, Greg McKenzie – Director Financial Recruitment Services Australia will be visiting London to host a seminar on both permanent and contract opportunities in Australia. For more information about this seminar or to reserve a place, please contact Fiona Hall or Melanie Steel on 0171 240 1040.

If you are unable to attend our seminar, but are still interested in obtaining further information about opportunities in Australia, why not send a copy of your résumé in the first instance directly to Chris Michaelidis or Greg McKenzie in our Sydney office, Locked Bag 19, Grosvenor Place, Sydney NSW 2000, or alternatively visit our internet site: http://www.morganbanks.com.au e-mail: info@morganbanks.com.au quoting reference no: F30/8026 and a covering letter outlining your impending travel dates. For immediate advice contact our London consultant, Tom Kennedy on 0171 240 1040 or fax him your details on 0171 753 0679.

Morgan & Banks
INTERNATIONAL

FINANCIAL CONTROLLER
(Director Designate)

■ This UK subsidiary of one of the world's largest ($25bn) corporations engaged in the design, manufacture and supply of environmental systems and installations, components and services to the construction and contracting sectors. It is part of a global division which boasts an enviable international customer base, making it the world's largest provider in this industry. With plans in place for strong profitable growth, the Board will appoint a Financial Controller to play a significant role in the senior management team.

■ Apart from managing and guiding the financial activities within the company, there will be considerable involvement in business planning, enhancement of the existing accounting and control systems, the development and communication of new management processes and the commercial development of the business. An imminent major project will be to oversee the introduction of new computerised accounting and management information systems.

■ Graduate calibre with an appropriate accounting qualification, a high level of competence with IT systems is essential to complement your financial management experience. The ability to lead and motivate a small, professional team and to accept delegated authority from working closely with the Managing Director, are essential attributes.

■ *Please send your CV quoting reference 2343 to: Stephen Newman, Theaker Monro & Newman, Hill House, 67-71 Lowlands Road, Harrow, Middlesex, HA1 3EQ (tel. 0181 423 4200/fax. 0181 423 4203).*

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The World Bank

THE WORLD BANK, the leading multilateral organization in global economic development, has the following positions available.

ACCOUNTANTS

Opportunities exist for well qualified and experienced Accountants in a variety of positions in the functional areas of:

- Central accounting and reporting of the Bank's monthly, quarterly and annual financial statements requiring cutting-edge familiarity with US GAAP and International Accounting Standards, particularly as they apply to financial institutions
- Reviewing internal controls and facilitating control self assessments using the COSO Framework
- Treasury accounting requiring deep understanding of financial instruments and derivatives as well as current literature

Other opportunities also exist for a PROFESSIONAL ASSISTANT to the Director of the Accounting Department as well as for a more senior appointment at the SECTION CHIEF level for Central Accounting and Reporting.

All applicants must be professionally qualified accountants and additionally hold at least a good undergraduate degree and have a minimum of 5 years relevant experience in public accounting and/or banking since qualifying (10 years for the Section Chief). Applicants must also be highly motivated as well as a good team player and able to work under pressure. These are exciting opportunities for high potential Accountants to join an equally exciting AAA organization that prides itself on the quality of its accounting.

Interested candidates should send a detailed curriculum vitae indicating position of interest, no later than October 7, 1996, to: The World Bank, Staffing Center, Room 04-142, ACCT96, 1818 H Street, NW, Washington, DC 20433, USA. FAX: (202) 477-8834. *Women and developing country nationals are particularly encouraged to apply.*

FT FINANCIAL TIMES **Les Echos** *Le Quotidien de l'Economie*

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Financial Controller

Belem, Brazil **Attractive Expatriate Package**

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The Company: The Tradelink group is an international group of companies trading in the UK, Europe, Africa, Asia and both North and South America in hardwood, plywood and allied wood products. The group has a successful track record of growth and 1996 turnover is forecast to exceed US$70 million.

The Location: Brazil has become the most important source area for the group and Belem is a city with a population of about 2 million and an average annual temperature of 27°C. It is the main commercial centre in northern Brazil and the gateway to the Amazon.

The Position:

- full accounting responsibility for the Brazilian company as well as its holding company.
- design, implement and maintain a fully computerised set of accounting records and management information systems in English to comply with international accounting standards.
- partake in the management of the company with specific responsibility for cost control and cash flow management.
- report to the Managing Director in Brazil and liaise regularly with the Financial Director of the UK company.
- the existing accounting team in Brazil will report to the successful candidate.

The Qualifications:

- fluent in English, probably aged 25 to 35 years.
- must be a qualified accountant and have trained with either a "big 6" or a respected professional firm.
- an ability to apply technical expertise in a commercial environment.
- Portuguese language is desirable but not essential.

The Package:

- salary of c. US$70,000 plus car, bonus and benefits.
- minimum 2 year contract with an option to renew for a further 2 years.
- 5 weeks annual leave with one airline ticket paid.

If you feel you are able to rise to this exceptional challenge, please send your CV, stating your current remuneration and employment details and daytime telephone number in the strictest confidence to:

Mr Noel Wright, Tradelink Wood Products Limited, 25 Beethoven Street, London W10 4LG. Fax: 0171 460 7799

Closing date for application is 11th October 1996.

هكذا من الأصل

Market Leading Hi-Tech Company

West London

Worldwide market leader in the supply of sophisticated on-line interactive software to the travel sector with substantial market share. Blue-chip US parent with operations in 24 countries throughout Europe, Middle East and Africa, split into two regions - North and South. Consistent growth has created these two new high-profile opportunities. Both appointments will have strategic influence on future operations, reporting to the European Finance Director.

Finance Manager – Southern Region — c. £45,000 + Car + Benefits

THE POSITION
- Full financial planning, reporting and control for 12 countries. Manage, motivate and develop 12 staff across UK and Europe.
- Develop management information systems and business planning processes across the region. Increase financial awareness of operational management.
- Key person in European finance team. Evaluate and establish expansion in new countries.

QUALIFICATIONS
- Probably aged early to late thirties with previous experience at manager/controller level.
- Previous exposure to Europe and background experience in hi-tech sector an advantage.
- Technically sound with strong interpersonal skills. Proactive self starter. Able to work in fast-moving, multicultural environment. Willingness to travel when required.

Ref LG60913

International Tax Manager — c. £50,000 + Car + Benefits

THE POSITION
- Full responsibility for income tax, VAT planning and compliance. Identify and implement best practice tax strategy across Europe, Middle East and Africa.
- Evaluate tax implications of business plans, contracts and potential transactions. Influence decisions accordingly. Liaise closely with, and report to, Tax Director in USA.
- Continually ensure company's tax declaration strategy remains consistent with growth.

QUALIFICATIONS
- Graduate qualified (ACA or ATII) corporate tax specialist. Strategic tax planning experience in industry or big six firm. European exposure preferable.
- Technically excellent and commercially astute with strong interpersonal skills. Strategic thinker.
- Confident. Ability to influence at Board level. Able to prioritise and manage deadlines.

Ref LG60914

Please send full cv, stating salary, quoting relevant reference, to NBS, 54 Jermyn Street, London, SW1Y 6LX

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CRT
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Group Financial Controller

c.£50,000 + Attractive Package — **North West PLC**

Formed in 1989, CRT is a leading UK training and recruitment company. Since inception, the Group has grown rapidly organically and through acquisition and now has £100m t/o, and 1,300 employees in more than 130 locations throughout the UK. Now poised for its next phase of substantial expansion following a capital injection of £109m of cash, CRT seeks to strengthen the central finance team with an individual capable of further progression within the Group.

THE POSITION
- Significant, high-profile role. Primary responsibility for the production, interpretation and analysis of Group management information. Support Group Finance Director.
- Design and maintain rigorous reporting, budgeting and forecasting routines. Manage treasury and tax functions.
- Establish strong links and presence in subsidiaries. Develop and maintain internal controls. Support acquisitions.

QUALIFICATIONS
- Graduate ACA, ideally "Big Six" trained. Probably 5–10 years' PQE. Possibly first position out of profession or FC/FD looking for significant Group role with scope in progress further.
- Outstanding technical skills. Critical eye for business issues. Strong attention to detail. Familiarity with spreadsheets essential. IT literate.
- Able to command respect of high profile international Board Members. Articulate, influential and intelligent.

Please send full cv, stating salary, ref MN60701/R, to
NBS, Courthill House, Water Lane, Wilmslow, Cheshire SK9 5AP Tel: 01625 539953

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NBS

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Financial Controller

Manufacturing

To £35,000 + Car + Benefits — **West Yorkshire**

Business role for commercial, qualified accountant in fast-moving, competitive sector. High degree of autonomy, working closely with Business Director.

THE COMPANY
- Profitable subsidiary of industrial, multinational, £1.2bn turnover plc.
- Market-leading manufacturer of components for automotive sector; 500 employees.
- Ambitious growth plans; substantial investment in new systems.

THE POSITION
- Provide complete financial service for business. Advise and actively participate in development of business strategy. Evaluate strategic options.
- Implement major new business systems. Challenge current practices.
- Manage budgets, stock levels, costings and capital investment appraisals.

QUALIFICATIONS
- Qualified accountant with minimum 4 years' PQE; manufacturing sector.
- Commercial, astute and able to operate in multifunctional management team. Able quickly to achieve credibility across the business.
- Combinatioo of strategic and haods-on skills. Excellent interpersonal skills and business judgement.

Please send full cv, stating salary, ref LD60904 to NBS, Yorkshire House, Greek Street, Leeds LS1 5SX

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(Not the) Group Controller

£ UPPER QUARTILE — *CHELMSFORD*

Harnessing the power of information

A change role for a consultant, MBA or ACA

The Company
- M&G Group P.L.C., a major quoted financial services group.
- £15bn funds under management
- Substantial institutional client base and 1¼m retail investors.
- Modern out of town customer service team of 600 people includes 70 in finance.

The Position
- Reporting to FD, to set about a radical reappraisal of the data provided to run the business.
- Play an active part in the wider management team to improve performance in operational support areas.
- Create a leading edge corporate service from an already high quality financial management team.

The Person
- Proven record, either as a consultant or in corporate controllership, in the review and redesign of practices and processes to focus on added value.
- Graduate Chartered Accountant or MBA with a talent for inspiring change.
- Creative and self assured in applying new technology to business systems.
- Ability to get the best out of people and teams at all levels.

S+T+C SELECTION

Please send a full CV to: STC Selection, 54 Jermyn Street, London SW1Y 6LX, quoting reference 2991

M&G

MKH

Finance Director and Company Secretary

Reinsurance Broking

c. £80,000
London

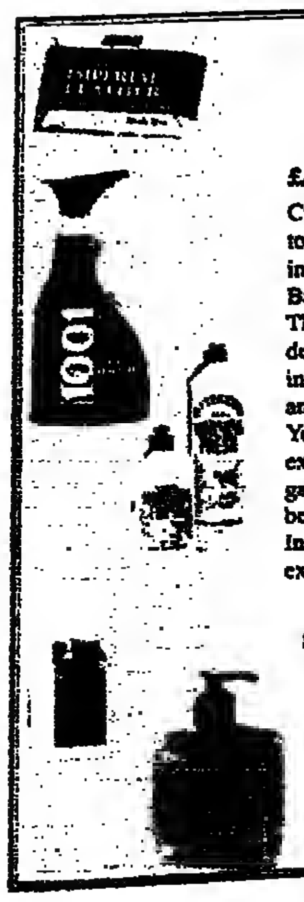
A highly successful reinsurance broker wishes to appoint a Finance Director to succeed the present incumbent who is retiring. The person appointed will be responsible for managing and developing a finance function which exercises the necessary controls and which participates actively in the business, providing strong support to the technical and broking teams. The jobholder will also carry out the responsibilities of Company Secretary and Compliance Officer for Lloyds.

Probably aged under 45, you will have a UK accountancy qualification and will have held, for several years, a senior financial appointment in a successful, customer led organisation in the UK financial services sector. A good understanding of the insurance market and regulation will clearly be advantageous.

Please apply in writing, stating age and current salary and quoting reference FT398, to Carolyn Forbes, Michael K. Howard, 433 Luton Road, Harpenden, Hertfordshire, AL5 3QE.

Applications will be acknowledged and forwarded to our client. Please name any Companies to which your details should not be sent.

MKH



Regional Management Accountant

£Attractive + Car — **Stockport**

Cussons International, part of Paterson Zochonis plc, is a multinational business manufacturing soaps, toiletries and household products. A strong portfolio of brands is marketed in many parts of the world including Australia, Nigeria, Greece, Poland and the Far East.

Based at Head Office you will have specific responsibility for several of the overseas operating units. This will include the preparation of corporate plans, performance review, assistance with the development of accounting information and systems/procedures and ensuring the effectiveness of internal financial controls throughout the Group. You will also work closely with Regional Directors and play a major role in evaluating proposed expansion projects/acquisitions.

You must hold a recognised Accountancy qualification and must have a minimum of 5 years experience of both Management and Financial Accounting in a manufacturing environment, ideally gained in FMCG. Experience of managing a small unit and of working with overseas operations will be an advantage. By its nature the job will entail frequent travel and periods of time abroad.

In addition to a competitive salary we can offer an Executive Car, Family BUPA and relocation expenses where appropriate.

If you are interested, please telephone 0161 491 8144 for an application form or write giving full career details including salary to; John Silverwood, Senior Personnel Executive, Cussons (International Limited), Cussons House, Bird Hall Lane, Stockport SK3 0XN.

Cussons

ORACLE®
Enabling the Information Age™

Reading

c. £80,000 + Benefits

This assignment is being handled exclusively by Brewer Morris. Please contact Matthew Phelps on 0171 415 2800 or write to him at Brewer Morris, 179 Queen Victoria Street, London EC4V 4DD. Evenings & Weekends 0181 940 1783

BREWER-MORRIS
TAXATION RECRUITMENT SPECIALISTS

Director of Tax

Europe Middle East/Africa (EMEA)

Oracle Corporation is the world's largest supplier of software for information management, and the world's second largest software company. With annual revenues of more than $4.2 billion and a growth rate of 35-45%, the company offers its database tools and application products (along with related consulting, education and support services) in more than 90 countries around the world. An exciting opportunity has now arisen to join Oracle as Director of Tax for the EMEA region. In this role you will take full responsibility for:-

- Pan European structural and transactional tax planning
- tax provisioning for US GAAP purposes
- local tax compliance
- indirect tax planning

To meet the challenges of this high profile role Oracle seeks an exceptional individual. Professionally qualified (ACA/CPA or Lawyer) you will have up to 10 years' experience in tax planning for US-based multinationals (including a working knowledge of US tax law/US GAAP FAS 109). In person you will be highly self-motivated, and confident in your ability to achieve results in a strongly international environment.

TREASURY MANAGER

LONDON — COMPETITIVE PACKAGE

Our client is a profitable and expanding industrial services group with extensive global operations in more than 70 countries.

It has recently been decided to establish an autonomous treasury unit in the company and a Treasury Manager is now sought to establish and manage this key function. Reporting to the Finance Director, the initial tasks will be to develop and implement treasury policies and procedures and to manage relationships with banks and other financial institutions to achieve efficient funding and cost effective service. In addition, the appointee will establish a framework for risk management, including the execution of foreign exchange transactions, and develop procedures for the effective management of multi-currency cash flows. Supervision of tax management will be an additional responsibility.

Appropriate candidates will probably be graduates with an MCT or accountancy qualification and will have had several years' in a multi-national corporate treasury team. A sound working knowledge of international cash management techniques is important, together with experience in the analysis and control of currency and interest risks. Exposure to capital raising issues in the US would be very useful. The appointee will have a high intellect and problem solving ability with the personal characteristics to ensure a good fit in an international unbureaucratic culture. Some overseas travel will be required.

An attractive salary package is offered for this key appointment. Opportunities for further career development are excellent.

Please write, in confidence, with full career and salary details to Geoffrey Mather, MSL International Limited, 32 Aybrook Street, London W1M 3JL. Please quote ref: 60671.

MSL INTERNATIONAL

LONDON 0171 487 5000 · BELFAST 01232 421842 · BIRMINGHAM 0121 454 8864 · BRISTOL 0117 927 6617 · GLASGOW 0141 248 7700 · LEEDS 0113 245 4757 · MANCHESTER 0161 835 1772 · NOTTINGHAM 01159 418 848

GROUP AUDIT MANAGER

M4 Corridor

To £35,000 + Car + Benefits

This International Risk Management Group, a fully listed public company, is a market leader covering a range of specialist products. Current turnover has consistently increased in line with profitability and the Group remains committed to further acquisition and development opportunities.

The continuing growth and development of its operations on both a local and international basis has created an outstanding opportunity for an individual keen to play a key role in improving performance and effectiveness.

Responsible to the Chairman of the Audit Committee, you will spearhead and manage a Corporate Audit function which will take prime responsibility for providing the Board with an overall assurance that various business risks are operationally and strategically identified and that appropriate procedures and systems are in place to control these issues. You will work on a host of special projects that will include the review of compliance and take an active involvement in any acquisition activity.

Key to success in this role will be the ability to build strong and effective contact with all Group management facilitating a relationship that will allow you to understand the business and be able to recommend improvements in efficiency.

The successful candidate will be a qualified Accountant aged late 20's upwards with first rate presentation and management skills, who is able to demonstrate a strong audit background gained from within the profession or in a corporate environment. You should be task driven and able to work on your own initiative.

This Group is committed to developing managers of the highest calibre and success in this role will lead to excellent opportunities for career progression.

Interested candidates should write promptly to Michael Herst at Herst Austin Rowley, 30 St. George Street, London W1R 9FA, enclosing a full CV and quoting reference HAR482. Fax: 0171 409 7872. E-mail: har@globalnet.co.uk

HERST AUSTIN ROWLEY

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MADRID • PARIS • PHILADELPHIA • WARSAW
Part of the Harrison Willis Group

GROUP FINANCIAL CONTROLLER

Electronics Manufacturing

Home Counties

To £40,000 + Car + Benefits

This respected quoted Group provides low to medium volume manufacturing services to the electronics industries. Its customer base includes leading names in telecommunications, computers, aerospace and defence. The Group has grown organically and through acquisition – there have been five major acquisitions in the past two years and Group turnover is now approaching £50m from ten manufacturing locations.

With further acquisitions planned, the Group has identified the need to appoint a talented Financial Controller who will take responsibility for all aspects of financial control and reporting.

Reporting to the Finance Director you will:

- Through close contact with senior operational and financial management of subsidiary companies, manage the flow of financial information between the Group Board and each subsidiary.
- Develop and monitor Group controls and performance measurements. Identify, investigate and resolve matters arising.
- Perform company secretarial functions to include dealing with the Stock Exchange and shareholders.
- Be involved in acquisitions, treasury, tax planning and compliance, and systems development.

The successful candidate will be a young graduate Accountant who can demonstrate success in a development role and who ideally has manufacturing industry experience. This is a high profile, newly created position offering first class opportunities for front line exposure and career development in a business dedicated to quality and growth.

Interested candidates should write promptly to Mark Rowley at Herst Austin Rowley, 30 St. George Street, London W1R 9FA, enclosing a full Curriculum Vitae and quoting reference HAR631. Fax: 0171 409 7872. E-mail: har@globalnet.co.uk

HERST AUSTIN ROWLEY

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MADRID • PARIS • PHILADELPHIA • WARSAW
Part of the Harrison Willis Group

Excellent package — WILLIAMS — *Midlands / London*

Corporate Finance Executive

Outstanding opportunity for a bright, ambitious and commercially orientated young professional to work at the heart of Williams, a very successful and highly respected FTSE 100 company. High profile role with a challenging remit, supporting acquisition and divestment activity worldwide.

THE ROLE

- Supporting the Directors of Corporate Finance in all aspects of acquisition and divestment transactions to support a progressive strategy to achieve and maintain global leadership in the Group's chosen markets.
- Participating in negotiations with principals and financial advisors. Co-ordinating due diligence exercises, including intellectual property and competition issues.
- Providing research into specific companies and industry sectors, worldwide. Assisting in the preparation of investor information.

THE QUALIFICATIONS

- Assertive graduate, aged 27-35, ideally with a second business qualification and a distinguished functional track record in finance, engineering, marketing or from the Professions. Language skills advantageous.
- Diligent, hard working and committed self-starter with first-class communication and analytical skills. PC literate.
- Ambition to work at plc Board level with the style, gravitas and polish to grow both professionally and personally in the role and engender confidence, internally and externally.

Leeds 0113 2307774
London 0171 493 1238
Manchester 0161 499 1700

Selector Europe
Spencer Stuart

Please reply with full details to: Selector Europe, Ref. F61880961, 14 Connaught Place, London W2 2ED

European Special Project & Audit Manager

SERVISAIR PLC

Based South Manchester — **£35-40k + Car + Benefits**

Servisair Plc provides essential support services to the Airline Industry. It floated on the London Stock Exchange at the end of 1994 and is Europe's largest independent ground handler. Its turnover is in excess of £130m, operates at 60 airports in the UK, Ireland & Europe and employs 5,000 in peak season. Further opportunities for the Group are arising throughout Europe and already they have won new licences to operate in Dublin, Gothenburg and Stockholm.

This ongoing expansion into Europe, has created the need to recruit a young, proactive and high calibre professional to establish a new Internal Audit Function that meets the Group's requirements, whilst having the flexibility to spearhead Special Project work.

The Role

- Implement and undertake operational and financial reviews on Group operations across all profit centres in UK, Ireland and Europe.
- Assess, report on and improve current internal control systems minimising business risks and exposure. Work closely with central finance and local management across the divisions. Liaise closely with external auditors.
- Heavy involvement in special projects/ad hoc assignments including potential secondments both in the UK or in Europe. Investigations on joint ventures, allegiances or acquisitions that may arise.
- Report directly to Chairman with functional relationship to the Group Finance Director. Extensive UK and European travel.

The Candidate

- High-calibre qualified Chartered Accountant. Late 20's/mid 30's with good experience of both audit techniques and working on projects gained in a fast moving, multi-site, multi-functional environment.
- Commercially astute, computer literate with good systems knowledge particularly Excel. Innovative with the ability to develop new ideas.
- Self motivated, a natural leader, able to liaise effectively and influence across disciplines through a persuasive but firm style developing excellent working relationships.

Please apply in writing with full CV, quoting reference LBA/313 to:

LB LAWRENCE BARNETT ASSOCIATES — HUMAN RESOURCE CONSULTANTS

Metropolitan House, City Park Business Village, 20 Brindley Road, Manchester M16 9HQ. Tel: 0161-877 4439 Fax: 0161-877 6708

FINANCE MANAGER
HOLLAND

PHARMACEUTICALS — EXCELLENT SALARY + CAR

Our client, a pharmaceutical multi-national, is looking for a high calibre Finance Manager for its sales, marketing and distribution operations based in Holland. The position will also be responsible for the financial control of its Dutch based holding company.

Reporting to the Regional Office in the UK, you will be a key part of a small team with responsibility for finance, administration, IT and distribution as well as local treasury and tax. Playing an important role in developing the long term planning and strategy, you will work closely with the auditors, banks and both the Regional and Group Headquarters.

You will probably be in your early 30s, a qualified accountant, preferably with a degree or an MBA and have worked for a major multi-national. Highly commercial, you must be prepared to adopt a 'hands-on' approach at all times and be able to demonstrate excellent interpersonal skills to manage the multi-cultural aspects of this diverse and challenging business.

The position is based in Holland and a knowledge of the Dutch language would be a further advantage. Career prospects are excellent.

If you are interested, please send your CV, in confidence, quoting reference number 4380 to Stuart Adamson FCA, Adamson & Partners Ltd, 10 Lisbon Square, Leeds LS1 4LY. Fax: +44 (0) 113 2420802. Tel: +44 (0) 113 2451212.

ADAMSON & PARTNERS

INTERNATIONAL EXECUTIVE SEARCH & SELECTION

AUDIT MANAGER

Circa £40,000 + Car

Midlands

THE GROUP

Our Client is a major UK Plc (t/o £1.2 billion - 1996) operating in a highly competitive field. During the year ended 1996 the group has built on strategic decisions enabling it to focus on core businesses and cash generation. This cash has been reinvested resulting in improved customer service, and the enhancement of shareholder value. A significant re-organisation of the group took place in 1995/96 which has allowed its management teams to focus on their markets and enter the latter part of the decade well positioned to face unique and exciting challenges.

THE OPPORTUNITY

Promotion into an operational post has resulted in the need to recruit for this challenging role. This position represents an excellent entry point into a major UK Plc where you will have full responsibility for the planning and management of audit activity within the trading and customer orientated side of the business. The environment will allow for innovation and intellectual stimuli as numerous technically demanding assignments will need to be undertaken. You will work closely with and provide pro-active advice to the Finance Director and other senior managers. Career progression is excellent evidenced by the number of senior appointments within the business which have originated from this department.

THE CANDIDATE

Candidates for this role will be graduate Accountants who are at a minimum 4 years post qualified. You will hold a good honours degree (2i) or better) and a first time pass record in your exams. A background in Audit is essential and experience of managing or auditing the risks associated with hedging contracts would be of particular relevance. Additionally, good verbal and written skills are fundamental, as is the ability to distil technical information in clear and concise terms.

Interested candidates should in the first instance write to our advising consultant Raj Abraham at ABPM, 7 Eldon Chambers, Nottingham NG1 2NS enclosing an up to date CV with contact telephone numbers and current remuneration.

ABPM

ABRAHAM • BEASLEY • PRICE • MORGAN
FINANCIAL • RECRUITMENT • SPECIALISTS

OFFICES AT BIRMINGHAM, LEEDS, MANCHESTER, NOTTINGHAM AND SHEFFIELD.

SENIOR EUROPEAN TAXATION ADVISOR
U.S. Bank

London Base — **£ substantial**

A world-class financial institution is seeking a senior specialist to augment its European Tax Group. Europe is an area of substantial strength for this corporation, and therefore the new recruit must be ready for a high-profile role involving the provision of transactional, product and planning advice to various business groups.

Your main duty will be to increase the value of transactions and products through the creation of innovative yet secure tax-efficient structures. An aptitude for spotting and exploiting planning opportunities is essential, as you will also be working with the European Tax Manager in developing planning schemes for the group's operations in Europe.

A fast-track background is vital if you wish to gain consideration. You will have been trained to the highest level by a high-ranking accountancy practice, law firm or multinational corporation, and since qualification you will have gained five to seven years' experience working on international tax issues as they affect financial institutions, with particular strengths in UK, European and US corporation tax issues. In addition you must be articulate, a genuine team player and a creative thinker.

For further details of this challenging role, please contact Mike Beament or Sheila Mandal of the BLT Direct Tax Team on 0171-405 3404 between 9.00am and 6.00pm, or out of hours on 0181-948 2936 or 0181-299 6882.

Alternatively, send your CV to the address below, or fax it on 0171 405 3310, or e-mail it to Mike at mjb@blt.co.uk

BLT

BEAMENT LESLIE THOMAS RECRUITMENT CONSULTANCY LIMITED
QUALITY HOUSE, 5/9 QUALITY COURT, CHANCERY LANE, LONDON WC2A 1HP

0171 405 3404

RJR
R.J. REYNOLDS TOBACCO INTERNATIONAL S.A.

CAMEL

Winston

Salem

The New Frontier

Former Soviet Union

Our client, RJ Reynolds Tobacco International S.A., in 1992 was the first major investor in private cigarette enterprise in the Former Soviet Union. Since then the company has established itself as the recognised market leader with 6 production sites employing in excess of 5,000 staff. The company is committed to further growth in order to enhance its position and status in the industry world-wide.

As a result of recent acquisitions, the company is seeking to recruit Financial Directors for its operations throughout the region. Reporting to and assisting the local General Manager, responsibilities will include:

- design, implementation and administration of pc based information systems;
- installation and development of robust financial controls and reporting procedures;
- training and development of local staff in accounting and internal controls;
- control of working capital – in particular, cash flow, standard costings and inventory issues.

Candidates must be qualified accountants with a successful track-record gained in an FMCG/ manufacturing environment who can demonstrate a "hands-on" approach to the business and the intellectual *ability to contribute* to strategic decisions. Equally important are the personal qualities which must include confidence, maturity, flexibility, drive, energy and commitment together with *the ability* to *identify and manage change*. Fluency in English is a pre-requisite whilst a working knowledge of Russian or Ukrainian would be useful but is not essential.

These are exceptional opportunities offering a high level of responsibility, excellent career prospects together with a generous and attractive remuneration package to attract the very best.

Interested applicants should forward a comprehensive CV, including current salary package and daytime telephone number to Hugh Everard, Director at Michael Page Eastern Europe, Page House, 39-41 Parker Street, London WC2B 5LH.

PACKAGES to ATTRACT the VERY BEST

MP
Michael Page Eastern Europe
International Recruitment Consultants

Global Treasury and Investment Banking Business and Technology Audit

City (International Travel) **£ Excellent & Banking Benefits**

Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world, with more than 3,300 offices in 75 countries.

The HSBC Group is a market leader in the global Treasury and Investment Banking business, with offices located in all the world's major financial centres, including London, New York, Tokyo, Sydney and Hong Kong. The Group is committed to retaining, and developing further, its pre-eminent position in this area.

Global responsibility for auditing the complex activities involved in these businesses rests with a high profile team of specialists based in London. Responsibilities cover all aspects of the businesses, including risk management and policy, performance reporting, operations, information technology and regulatory compliance.

Due to expansion, we are seeking a small number of high-calibre individuals to become key members of our operational and technology audit areas. The roles offer unparalleled exposure to the Group's global Treasury and Investment Banking activities, and will involve overseas travel of up to 40%.

Successful candidates are likely to have the following background:

- **Strong academic record.**
- **Qualified Accountants, or comparable professionals, with at least 2 to 4 years' relevant experience in financial services with a 'Big Six' Accounting firm or an Investment Bank.**
- **Strong product and business knowledge in Treasury and Investment Banking, or in the IT systems supporting these areas.**
- **Excellent communication and presentation skills.**
- **Leadership skills coupled with a willingness to take a 'hands on' approach in operational reviews.**

Above all, candidates must be motivated and prepared to demonstrate commitment to a career within financial services.

These are challenging roles, providing a high level of exposure to senior management throughout the HSBC Group. These outstanding opportunities offer a highly competitive salary package, and success will ensure advancement within the Group.

For further information, please send a CV, including a daytime telephone number to Kevin Golder, HR Operations Manager, HSBC Holdings plc, 10 Lower Thames Street, London EC3R 6AE.

HSBC Holdings plc

Price Waterhouse
EXECUTIVE SEARCH & SELECTION

Business Finance Management

A strong hand....with a light touch

Up to £55,000 plus benefits **Home Counties**

Caveat

To take up the reins of this, the fastest growing and most volatile division of an international corporation, requires no ordinary combination of skills. But then, this is no commonplace organisation. And, then again, you aren't *looking for a background slot*. Now that we understand one another.....

The Lure

You will be responsible - at the head of a small team - to the business head for managing and co-ordinating the financial planning, accounting, banking systems and sales administration functions across our Eastern European region. If even that sounds disappointingly routine, let us move to the *highlights*....

We may be asking the impossible, but can you resist the temptation to do just that? To be a master in the art of being right? To identify, monitor and contain business risk - and to judge infallibly when and where the limits of the envelope can be explored?

The Challenge

All of this is set against a background of rapid, sometimes unpredictable change in a market where commercial success can be achieved only through the radical creativity of the business units in the field. Your role will be to harness that creativity to a strong, cohesive financial management framework yet retaining the *flexibility* to adapt to the disparate requirements of circumstances in a genuinely multi-cultural environment.

Setting the Scene

For your judgement to command the trust of our thoroughbred international sales team, it must be presented with the confidence born of expertise and experience. You must be able to combine corporate credibility at board level with the sensitivity to establish a working rapport with colleagues throughout our far-flung divisions.

Your Background

A qualified accountant, you will need at least 10 years' wide-ranging financial, commercial and administrative management experience rooted in a rapidly changing and market-led environment involving inter-company and multi-currency business practice. IT literate with exposure to continuing systems development, your track record will demonstrate consummate skills in high level planning, organisation and problem solving in situations demanding cool-headed, decisive actions.

Equally, you must possess the determination and energy required to handle the rapid growth expected of this business group. On a personal level, you are a good persuasive, approachable communicator with excellent presentation skills.

Rewards

From the beginning, you will relish the excitement of a level of challenge which cannot be over-estimated. As to the future, the prospects for career development would *be hard to exaggerate; while the ambitious* targets already set will provide still further scope for achievement.

If all this sounds like you, write to our advising consultant, David Hunter, quoting reference L/1691 at the address below. Alternatively, call him for a confidential discussion on 0171 939 3661.

Executive Search & Selection,
Price Waterhouse Management Consulting Ltd.,
Southwark Towers, 32 *London Bridge Street, London SE1 9SY.*
Fax: 0171 378 0647
E-mail: David_Hunter@Europe.notes.pw.com.

Retail Accounts Payable Audit

Unique opportunity
Independence and High Earnings Potential

Howard Schultz & Associates is the world's leading accounts payable audit firm. In 1995 our 1600 self-employed associates, operating from 25 offices in 16 countries, recovered $400 million in supplier over-payments for over 1600 clients.

Our 50 UK associates work for *65 of the UK's leading retailers.* Rapid growth has now created the need for **2 new associates**, one in the Midlands and one in the South East.

- *Are you a qualified accountant, with extensive retail experience, commercial flair, and the drive to earn a six figure income?*
- Do you have the maturity, people skills and technical ability to handle accounts payable and supplier staff at all levels?

If so, please send your CV to Peter Bennett, Howard Schultz & Associates, White House Court, Leighton Buzzard, Beds. LU7 8FD. (Tel: 01525 852882 Fax: 01525 853535)

howard schultz & associates

CAPITAL INTERNATIONAL LIMITED

We are a subsidiary of the Capital Group Companies Inc., Los Angeles, *one of the world's largest investment management* organizations. Due to rapid expansion, we are strengthening our European operations center, based in Geneva, Switzerland, by appointing a:

Fund Accounting Supervisor

The Job: you will be responsible for supervising the day-to-day activities of our mutual funds and emerging markets fund accounting group, including active initiation and participation in a large number of projects.

The Candidate: you must have a formal accounting qualification and/or demonstrate significant accounting background, preferably with a major accounting firm. You should have previous supervisory experience, be an effective communicator, be experienced in mutual funds & asset management and have the commitment to make a significant contribution to our corporate goals and objectives. We attach great importance to personal qualities.

To apply, please send a CV and covering letter to:

Capital International Limited
Ref: HR Department/SHS
25 Bedford Street
London WC2E 9HN

Facilities Management / Support Services

Finance Director

c.£40 - 45,000 + Bonus + Car ***Midlands***

Our Client is a c.£30 million turnover growing business within a Division of a substantial UK Plc.

The Business is engaged in the provision of on-site management, engineering maintenance, training, logistics and other related support services against long-term defence and civil contracts; operating across sites within the UK and Europe. The "outsourcing" of such activities within both Government establishments and the civil sector is expected to be a continuing trend from which the Business is well placed to benefit.

A strong Finance Director is needed with the experience and *commercial outlook* necessary to ensure that the Business is profitably managed within a soundly based control environment. As a key member of the Business's executive team, you will *manage the small* finance function, and have the influencing skills and pragmatic approach to "sell" the role of Finance to non-financial people across the organisation.

Probably in your 30s/40s, or perhaps older, you will be a qualified accountant capable of establishing sound controls and procedures, who is readily "credible" and can demonstrate a record of hands-on successful financial management (or, if in the profession, can show highly relevant client experience). Ideally, this will have been in a context where challenging past convention and "sensitively" effecting culture change has been required. Past experience of working within a lean financial organisation and exposure to a multi-site environment would be a plus.

You should write or fax in confidence, enclosing your resume and current salary details and daytime/ evening telephone contact numbers, quoting reference 699/B on both envelope and letter/fax, to the address below:

Chryssaphes Flamminger Associates, Bechtel House, 245 Hammersmith Road, London W6 8OP (Fax: 0181 528 9878).

European Audit Manager

– Vice President –

Risk based business review

Frankfurt — **circa DM 250,000**

Our client is a premier global integrated securities house with an excellent reputation in sales and trading, capital markets and investment banking. As part of a new strategy for the European audit function, a high calibre, experienced individual is now required to manage the delivery of an audit and controls advisory service in Frankfurt and continental Europe.

Based in Frankfurt and reporting directly to the Director of European Audit, the individual will be performing an important role as part of the European Audit Management team. They will be working to assess the risks facing the firm's sales, trading, accounting and operational functions as well as reviewing, evaluating and advising on the need for effective internal control.

This is a key appointment requiring strong organisational skills, an inquisitive and tenacious attitude, and a positive, proactive approach to the identification and resolution of business issues.

Candidates should have substantial experience (at least eight years') in either line management or audit within the securities/financial services industry, or within an accounting firm having specialised in financial services. It is likely that they will be qualified accountants or possess a business or risk management qualification.

The ideal candidate will have a good knowledge of investment banking products and an understanding of technology based control issues and German and US GAAP. Strong communication and relationship building skills are a prerequisite as is the ability to manage a small team. It is essential that the candidate is fluent in both English and German.

Interested candidates should forward their curriculum vitae to Sarah Hunt at Michael Page City, Page House, 39-41 Parker Street, London WC2B 5LH, telephone +44 1 71 269 2339, fax +44 1 71 405 9649.

Alternatively, they may forward their curriculum vitae to Harold Heil at Michael Page Deutschland, Mainzer Landstrasse 39, 60329 Frankfurt, telephone +49 69 2426 180, fax +49 69 2426 1818.

Michael Page City
International Recruitment Consultants
London Paris Frankfurt Hong Kong Singapore Sydney

SWP Group plc

Group Financial Controller/Company Secretary

London — *c £35,000 + benefits*

SWP Group plc is a quoted £16M turnover plc with ambitious plans for future growth through the acquisition of complementary businesses in the Building Products market.

The Position

- Review & consolidation of Group monthly accounts
- Ensure Group subsidiaries produce monthly accounts to the agreed format and standards
- Preparation of Group interim & annual accounts
- Compliance with Companies Acts, Stock Exchange & Yellow Book requirements
- Define & review Group policies in respect of pensions, share options, cars etc
- Support the Board as required on potential acquisitions

Profile

- Qualified accountant (ACA or ACIS), late 20s to early 30s
- Some experience of operating in the Company Secretary's office of a plc
- A thorough & detailed mind, combined with a broader appreciation of commercial issues
- A well-organised self-starter, capable of planning his/her workload
- Good interpersonal & communication skills

This is an excellent ground floor opportunity for a bright, ambitious accountant to make a significant contribution in a challenging environment.

Please send your CV, quoting ref 1201 to Lesley Fletcher
Thomas Cole Kinder Limited
43/44 Albemarle Street
London W1X 3FE
Fax no: 44 (0)171 355 1574
E-mail no: tck@tck.co.uk

THOMAS COLE KINDER
Executive Search and Management Consultants

BLUEBIRD

CONRAN RESTAURANTS

Commercial Finance Managers

Competitive Package — **CENTRAL LONDON**

Conran Restaurants is one of the leading quality restaurant groups in the UK with six London based restaurants and with plans for future expansion. We wish to appoint two senior commercially minded accountants, to make a real contribution to the success of Mezzo and Bluebird.

Mezzo is one of Europe's largest restaurants and lies in the heart of Soho, offering an exciting and distinctly stylish dining experience. The Bluebird Gastrodrome opens on the Kings Road next Spring and will comprise a large foodmarket, a restaurant and private club.

The Candidates

- Bright, imaginative, qualified accountants, preferably with experience in a relevant environment.
- Strong communicators with team management experience.
- Clear commercial thinkers, problem solvers with a pragmatic business focused approach and familiarity with high volume businesses.
- Energetic, flexible with "can do" attitudes.
- The Bluebird project requires sound IT knowledge.

The Positions

- Full responsibility for the financial management of each business including planning, forecasting and financial reporting.
- Provide financial input into broader commercial issues concerning the strategic direction of the business.
- Specify and implement systems and processes, particularly IT, to optimise business performance and management control.
- Report to the relevant General Manager with functional reporting to the Finance Director.

To apply, please write to us saying how you meet our requirements and enclose your CV and current salary details. Your details should be sent to:-

Diane Bright, Personnel Director,
Conran Restaurants Ltd, The Clove Building,
4-6 Maguire Street, LONDON. SE1 2NQ.

Deloitte & Touche CIS

INTERNATIONAL OPPORTUNITIES

Deloitte and Touche is one of the leading Big 6 accounting and management consultancy firms, with offices located worldwide. We have rapidly expanding practices throughout the Commonwealth of Independent States (the former Soviet Union), which have resulted in a number of key vacancies, as follows:

FINANCIAL CONTROLLER
A graduate, with a recognised accounting qualification ACA or equivalent. Five years' experience as a Financial Controller is essential, with international accounting preferred.

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The Candidate
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The Candidate
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CVs should be sent to **Gary Johnson**, Douglas Llambias Associates, 10 Bedford Street, London WC2E 9HE. Tel: 0171 420 8000. Fax: 0171 379 4820.

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Interested candidates should write, enclosing full career and current salary details to the advising consultant, Keith Evans, at Questor International Ltd, 3 Burlington Gardens, London W1X 1LE. Please quote reference 309818.

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Interested applicants should send a current CV to Samantha Laurie at Robert Walters Associates, 25 Bedford Street, London WC2E 9HP. Tel: 0171 379 3333 or Fax: 0171 915 8714. Email: samantha.laurie@robertwalters.com

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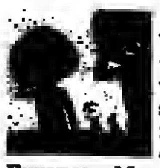
parallel INTERNATIONAL

For Banking, Finance & General Appointments please turn to pages 10-16

■ EMI: by Andrew Fisher

Technicians look to 1999

EMI is preparing for Emu and monitoring the progress of possible members



As they beaver away with preparations for the single currency, officials of the European Monetary Institute (EMI) must master a mass of detail and keep their eyes on the vision which inspired their work in the first place.

The EMI's job is to prepare the framework for the smooth introduction of European economic and monetary union (Emu) in 1999. It is the forerunner of the European central bank (ECB) which will take over the reins of monetary policy from national central banks when, and if, Emu takes off.

"It is a task which is unprecedented," said Alexandre Lamfalussy, president of the Frankfurt-based EMI in a recent speech. "There is absolutely no historical example."

The EMI is also charged under the Maastricht treaty with assessing how well potential Emu members are coping with the economic convergence criteria laid down for entry. "This is an advisory function, but in a very heavy sense," Mr Lamfalussy added. The final decision will be taken early in 1998 by governments, but they will find it hard to go against the judgment of the EMI which will produce an interim report on convergence in November.

With its twin task of making the immensely detailed preparations for Emu – covering monetary, legal, statistical, payments and other issues – and monitoring countries' success or otherwise in meeting the criteria, the EMI has a tough course to negotiate.

"So far, we are on time," said Mr Lamfalussy. "Work has been progressing well and I often wonder why," he mused. There were two main reasons, he said.

First, central banks were mostly in agreement on the paramount need for price stability and how to achieve it, despite continued economic policy differences among their governments.

Second, the central banks all knew each other well.

Thus the detailed preparatory work was going ahead smoothly. But he admitted that this was certainly no guarantee that Emu would happen as planned. "I am not saying that because it is technically feasible it will happen. But if it was not technically feasible, it would not happen."

The EMI is doing its level best to ensure that Emu will not founder on the technical aspects. But with less than two-and-a-half years to go, time is short. It would have been unbearably so if the original starting date of 1997 had remained. The EMI has updated its master plan to take account of the new timetable.

Early in January, it will publish a report on the types of monetary policy it feels will be appropriate for the European central bank. It will not make the ECB's decisions in advance, but will provide the monetary tools from which it can select. What has broadly been agreed so far is that there will be an interest rate corridor – with upper and lower limits – with a money market-linked rate (similar to the German securities repurchase, or repo, rate) in between.

The report will be detailed and precise, but will not say whether or not the ECB should operate with minimum reserves. This decision will be left to the new central bank. So will the question of whether it should orientate its monetary policies to money supply or inflation targets or a combination of both.

These are delicate issues, but by no means as contentious – at least, not at present – as the way in which the new European Union payments system will be adopted. Called Target (trans-European automated real-time gross settlement express transfer), the system will effect rapid payments settlements across the EU. But it will also be a tool for the conduct of monetary policy.

Alexandre Lamfalussy: "Work has been progressing well"

Thus the demands of likely non-Emu members, notably the UK and Denmark, for equal access to Target have been opposed by Germany and France. The latter countries, which would form the core of Emu, do not want non-members to share all the advantages of Target while staying outside the single currency, or euro, zone.

Germany and France want strict conditions for access to intra-day liquidity in the euro by non-Emu countries to prevent this spilling over into overnight credit. Hermann Remsperger, chief economist at BHF-Bank in Frankfurt, has highlighted the competitive issues involved. Britain was pushing for its banks to be fully involved in Emu, even if the government finally opted out. This would benefit London as a financial centre.

"In effect," Mr Remsperger said, "the policy would be made in Frankfurt [by the ECB] and the profit would be made in London. Even the biggest supporters of Emu on the Continent cannot be expected to be that charitable."

Since the issue has become highly political, the EMI has shelved the matter of terms of access for the "ins" and "outs" of Emu. In its progress report on Target in August, it said further talks were necessary. It did not say how long these might take, but compromise will not be easy. If none can be reached in time, the ECB will have to take the final decision, based on options drawn up by the EMI.

Target is a prime example of how the intricate detail of Emu can become part of the big political picture. Other areas where much work remains to be done are the future legal status of the euro, the harmonisation of statistics and currency links between the "ins" and "outs". The EMI is also involved in the design of the new euro banknotes, having launched a competition in February. Again, it will be the ECB which takes the final decision on which design, historical or abstract, to use.

All of the EMI's painstaking work, however, would be in vain without the political will of potential Emu members, led by Germany and France. While Mr Lamfalussy and his colleagues make the detailed preparations, the debate rages on about which countries will be able to join Emu, how far the debt, budget, inflation and other criteria can be interpreted (or fudged), and whether it can start on time.

Mr Lamfalussy thinks it can. "I am reasonably confident," he said. But he left room for doubt. Undoubtedly, the momentum which has been built up behind Emu and the money which is being invested in preparing for it – not least by the big banks – has made it seem inevitable. But as he said earlier this year, "it will be a bumpy road".

■ Emu: by Gillian Tett

Crucial period for Europe

Emu appears to be on course for 1999 at least for a hard core of countries

If you believe the optimists, Europe is about to embark on a momentous and inspiring project. If you listen to the *cynics, it faces* a messy and humiliating showdown.

Either way, as preparations for economic and monetary union gather pace, the next 12 months will be crucial in determining the success of the project.

By the middle of 1997, hints are likely to be emerging about potential members, and there should be firm indications about whether Emu can go ahead on schedule.

On the face of it, the omens seem upbeat. Since the start of this year, political expectations have been rising that Emu will proceed as planned in 1999, at least with a hard core of countries – Germany, France, Netherlands, Belgium, Austria, Ireland and Luxembourg. Preparations are already under way.

In addition, market economists are becoming believers in Emu: a recent survey by the research group Consensus Economics showed that four fifths of economists expect Emu to start on schedule – and none has forecast that it will be abandoned.

But in the very week of the survey in mid-August, another event occurred which *cast doubts* on *this* optimism.

After months of stability, the French franc suddenly weakened – a move partly triggered, it seems, by renewed doubts about Emu and the French government's ability to meet the qualifications.

So far these wobbles have been minor. But they cannot be ignored, for they are a timely reminder that there are still two large uncertainties hanging over the whole project.

The first big question is whether the pattern of European growth will allow the EU countries to meet the Maastricht convergence criteria to join Emu. These stipulate that government budget deficits and government *debt should be no higher* than 3 per cent and 60 per cent of gross domestic product respectively. The final decision on Emu membership for 1999 will be taken in early 1998 – meaning that *the targets will have to be* met in 1997.

Meeting these targets will be far easier if growth is strong: expanding an economy's size not only makes the debt and deficit proportionately smaller, but *also* increases tax revenues. And when the Maastricht criteria were initially established, most policy makers assumed that Europe would be growing. But countries such as France, Germany and Belgium saw a downturn in the second half of last year. And though their governments initially hoped for a rebound this year, the performance in the first half of 1996 has been distinctly disappointing.

Moet economists assume the upturn will materialise this autumn, particularly after the recent Bundesbank repo rate cut. The consensus *among market ecouomists*, for example, is that the German and French economies will both grow by 2.2 per cent uext year. Although recent German, Belgian and Dutch data have beeu upbeat, the French figures are patchy. Consequently, it may not become clear until uext spring whether the upturn is sufficiently strong and, more importantly, *evenly spread between* the potential Emn members.

The second crucial uncertainty, though, is governments' spending plans. For, even if growth rebounds, the Maastricht targets are unlikely to be met without budget stringency.

Ou paper, governments are cutting spending. But it is unclear whether all the political promises will translate into real rednctions - particularly in a country like France where social unrest appears to be rising again

Some slippage may not matter: any decision on whether to proceed with Emu, after all, will be taken largely on political grounds. And there is scope for flexibility in interpretation of the criteria: most observers *believe that* deficits which are *approaching* 3 per cent of GDP, and the debts that are falling towards 60 per cent of GDP *should* be acceptable for Emu membership.

But the scope for flexibil*ity may* be *limited. Although* most economists expect France's deficit to be 3.6 per cent in 1997, it could rise above 4 per cent. Meanwhile, the market consensus is thet Germany's debt will be more than 60 per cent, and may be on a sharply *rising* trend. If Europe's leaders do proceed with Emu under these circumstances, it would seriously undermine their claims to be building a monetary union on the basis of sustainable convergence.

The financial markets, for example, would certainly react badly. But the Bundesbank, which is determined thet the future single currency should be as credible as the German D-Mark, could also, crucially, prove difficult to appease.

These feare may prove unfounded. But they cannot be *put to rest until after the* eutumn negotiations for the 1997 budgets in countries such as France and Germany, and the reality of spending programmes uext year. In the interim, ths practical preparations for Emu are gathering pace.

Late last year, the European governments agreed a broad framework for the cbange-over to the single cureucy, the euro. *This* envisages that the euro will be introduced as a unit of account from 1999, but will not replace national notes and coins until 2002. Until theu, uational curreucies will remain, locked into each other and the euro at irrevocable exchange rates.

The legal framework to support this scenario is now being prepared by the Commission, and should be finished by the end of 1996.

Meanwhile, the European Monetary Institute is preparing the architecture of the new system for monetary policy and payments. Although decisions on the most coutroversial details are likely to be delayed *until* 1998, the broader blueprint should emerge by 1997. The *EMI and Eurostat – the sta*tistical wing of the Commission – are also setting up the statistical systems to eupport this monetary policy.

And efforts are also being made to tackle two of the *most controversial policy* questions – handling relations with non-Emu members, and ensuing continued couvergence after Emu through a fiscal stability pact. The details on the latter remain controversial, but some consensus is likely to emerge this eutumn. Meanwhile, a framework for a uew exchange rate mechanism should be approved soon, although determining exactly how Emu and non-Emu members in the EU will interact is another important political issue.

Meanwhile, outside the government sector, large businesses are also making preparations. French and German banks will this autumn start their preparations for Emu by investing in the uew computer systems ueeded for Emu. *Deutsche Bank, for example*, says that it has already begun spending money for this purpose. A host of non-banking companies, ranging from the Dutch group Philips to French group Rhone-Pônleuc, have established internal working groups to examine their preparations for Emu. And some of these bave geuerated a lively debate on a range of practi*cal questions associated with* Emu, including the conversion of computer systems, payment of suppliers and even the managemeut of pension fund assets.

These preparations may give the impressiou that Emu is now inevitable. But they do not in themselves solve the fundamental problems of deficits and debts.

And though there is little likelihood of Emu being abandoned, a few political observers are quietly mulling over the possibility of delay. Either way, this winter could be a nervous one for Emu-enthusiasts.

■ **United Kingdom:** by Gillian Tett

Looming election sets agenda

The outlook at present looks rosy but the danger of overheating next year remains

As the general election looms in Britain, chancellor Kenneth Clarke is one of the few Conservative politicians who has reason to feel cheery.

For, irrespective of the government's political woes, the next few months are likely to deliver an unusually rosy set of UK economic figures.

Inflation is low, consumers' incomes are rising, and unemployment is falling. And although manufacturing output has recently dipped, the sector has largely escaped the marked downturn recorded in most of Continental Europe.

But the really interesting question is oot so much the economy's performance before the election – but rather the longer term economic legacy that any future government will inherit.

The chancellor claims that the UK has now shaken off the country's traditional "boom and bust" cycle. But there are still plenty of economists in the City of London and the Bank of England who fear that the present rosy pattern could begin to crack. And this could leave the next government with a difficult juggling ect – even as early as next year.

As Bill Martin, chief economist at UBS bank, says: "The justifiable fear is that the all-too-familiar political cycle will cause the economy to seriously overheet next year."

For the moment, UBS thinks this is still only a risk, rather than a probability and recent sets of economic data give little cause for alarm.

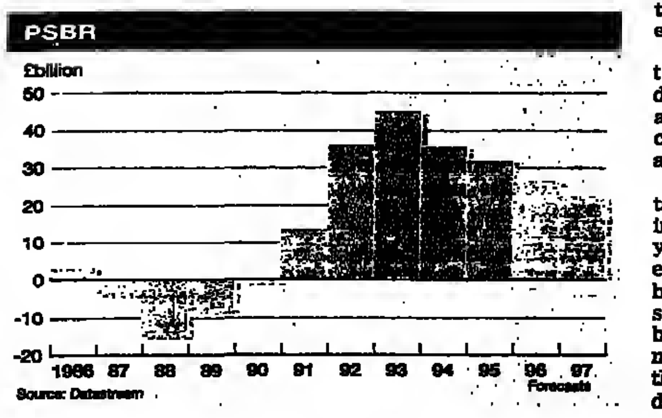
In the second quarter of the year, the annual increase in non-oil gross domestic product was 1.7 per cent, considerably healthier than most of the rest of Europe. It is, nevertheless, well below the rate of growth seen in late 1994, which was briefly ebove 3 per cent, and it is below the rate at which the Treesury thinks the economy can expand without triggering inflation – a level currently put somewhere between 2.5 and 2.75 per cent.

Meanwhile, measures of price growth show little sign of accelerating. The headline rate of inflation has hovered around 2.2 per cent in recent months, while the underlying rete – which excludes mortgage interest payments – has been around 2.8 per cent.

As David Walton, chief UK economist et Goldman Sachs seys: "Despite stronger growth, the near-term prospects for inflation are very good." He adds: "A striking feature of recent business surveys has been the absence of cost and price pressures, particularly in manufacturing."

But these overall headline figures do not tell the whole story. For it is not so much the pace of growth that is leaving economists uneasy – but also its composition.

When the latest recovery in the UK economy first got under way in 1993 and 1994, it was primarily driven by exports and manufacturing, which were boosted by sterling's 1992 devaluation. Consumption also rose steadily in spite of the widespread belief that UK consumers were "gloomy". But its contribution to overall growth was lower than in some cycles – and, in particular, the consumer boom in the late 1980s.

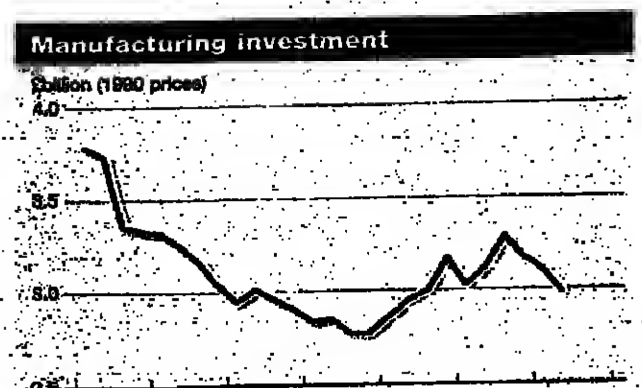


This led some observers to conclude that the UK had created a "virtuous" recovsry, which could combine growth with low inflation – while boosting the longer term productive base of the country.

But since then the balance has shifted. Export growth slowed dramatically last year, leading to a dip in manufacturing output at the start of this year, while consumer spending seems to be gathering pace. The research group Consensus Economics says thet ecooomists now expect consumer spending to rise 2.9 per cent this year and 3.5 per cent next, while the Treasury's forecasts are even higher.

From some perspectives, this upturn in domestic demand is healthy: there are alreedy signs that higher consumer spending levels are boosting factory output.

But the crucial uncertainty is what this will do to inflation. Over the last two years manufacturers – and even some retailers – have hed to swallow a painful squeeze on their margins because of surging raw material costs. And though the weakness of domestic demand has left them unable to pass these on to customers so far, they may try if there is e firm upturn in consumer spending.



The Treesury itself remains sanguine, arguing that greater competition in retailing will hold prices down. And it points out that structural changes in the labour market also makes wage inflation less likely. Though unemployment is now at its lowest level for five and half years, everage earnings show little sign of acceleration.

But these numbers have generated a sense of *déja vu*. Back in the mid-1980s, many economists also believed that scenario was relatively healthy – just before the next consumer-led boom.

And if European export markets surge next year, as some economists suspect they might, the combination of strong domestic demand and export growth could create a boom.

So far, the main focus for this debate has been the regular monthly monetary meeting between the Bank of England governor and the chancellor. In these the Bank of England hes increasingly warned that interest rates may need to be raised soon in order to control future inflationary pressures – while the chancellor has argued thet the price pressures remain benign.

But es the election approeches, this debate about the sustainability of the growth is also likely to trigger broader questions about the structure of the UK economy.

Investment in this recovery has been disappointingly weak, according to the official figures. And if the data is correct – which some economists question – this will cast doubts on the UK's ebility to respond to en upsurge in demand.

Meanwhile, public sector borrowing continues to be the government's achilles heel. If the chancellor resists the pressure to unveil large tax cuts this autumn, the deficit should be on an improving trend. In the 1996-97 financial year, for example, the Treasury hopes to reduce the deficit to £26.9bn – sbout half its level three years ago. But if the chancellor does cut taxes, then it could leave significantly worsen the picture.

Some economists question whether the chancellor himself is overly concerned about this: most opinion polls suggest that he will be elected out of office. But it might leave the future government with a nasty choice in 1997. For either it will have to raise net taxes – and possibly interest rates as well – or else face the prospect of watching the UK's history of boom end bust cycles repeat itself again.

■ **UK Labour party's strategy:** by Graham Bowley

Polls point to new course

Labour has made many sweeping pronouncements but has given few details

This time next year the UK economy could be about to embark on e different course.

A generel election is expected to take place in the spring and the Labour party enjoys e substantial lead in the opinion polls. If the polls can be trusted, Tony Blair, the Labour leader, should be sitting in No 10 Downing Street and Mr Gordon Brown will be in the Treasury as chancellor.

The prospect of a Labour government – which would be the first in 18 years – raises many big questions: Would it manage to raise the economy's long-term rate of growth? Would it avoid raising taxes? Would it control inflation in as credible a fashion as the Conservatives have managed to do? Would it succeed in lowering the underlying rate of unemployment?

Labour has made many broad, sweeping pronouncements about what it will do, but has given few details. From what we have heard so far, the chances are that Labour policy is unlikely to mark a radical departure from present Conservative economic thinking.

According to Labour, it would take Britain into European economic and monetary union (Emu) – although the final decision on the single currency would be determined by a "hard-headed look at the economic practicalities".

Labour would set a tough target for inflation. The Bank of England would win greater independence. Indeed, Labour's proposed framework for fiscal and monetary policy appears as rigorous as any pursued by the Conservative party in government. Labour would also agree to the EU's social chapter, and impose a minimum wage.

Labour has done much to woo the UK business community, in the City of London and around the country, large parts of which have traditionally been sceptical of a Labour administration.

Amid a furious schedule of meetings with people in businesses and commerce, Labour has done much to jettison the high spending and tax policies which kept the party out of office during the 1980s.

Earlier this year it set out several broad principles which would underpin future Labour economic policy and which is the closest the party has come yet to an economic manifesto. These principles include:

■ The establishment of a central role for Britain in Europe, where an outward-looking and anti-protectionist stance would be encouraged;

■ The setting of tough rules for government spending and borrowing, strengthening the economy and ensuring low inflation so that interest rates are low. A tax system which is fair, promotes investment and encourages employment;

■ Raising education standards and encouraging people at work to learn new skills;

■ Promoting the interests of small businesses, improving their access to financial support and cracking down on late payment;

■ Improving competitiveness through a partnership between government and business. Revitalising the private finance initiative to renew the country's infrastructure.

In a speech to the City of London last week, Mr Blair stressed that the key to higher living standards was improved corporate profitability and productivity.

To ensure low inflation, Labour might consider reform of the present monetary policy framework set up by the present government after the pound left the European exchange rate mechanism in 1992.

It has been mooted that Labour might construct a new and larger "court" within the Bank of England to help advise on the setting of interest rates. This arrangement might also defuse some of the confrontationalism inherent in the present monthly head-on meetings between the chancellor and governor of the Bank of England.

If Labour is serious about Emu, it will have to grant the Bank full independence, as the Maastricht Treaty requires and which other European countries have already done. But it is unlikely that a politicel party which has desperately sought power for almost two decades would readily give up one of the key instruments of influence within just a few years of finally gaining it.

The Treasury could also be a very different place, with the signs being that the new chancellor will be keen to extend his own power and influence beyond the Treasury's formal remit of macroeconomic management and financial control. The Treasury might become a more broadly-based ministry of the economy – a potential "hot bed" of ideas, staffed with new Labour-friendly civil servants.

In an attempt to cut unemployment, Labour has plans for a windfall tax on privatised utilities which would help fund training for the young. So far, this is the party's only new revenue raising proposal.

But Labour's other specifics seem timid. In an attempt to improve education and skills, it has suggested e modest shift in resources towards primary schooling.

It mey also introduce tighter rules for the young jobless if they refuse the offer of a job or training, and it has suggested a bigger contribution from university students towards living costs. It has also proposed lifetime access to education and training and has put forward the idea of a "university for industry" to boost the acquisition of skills in the workplace.

مكبرا من الأصل

FT

FINANCIAL TIMES

Dear Reader,

The Financial Times publishes country, industry and financial surveys (ie. separate editorial features) several times per week. In order to help ensure that these meet your needs as a reader, we have commissioned Framework, an independent market research company, to conduct a research project.

Please could you help us by taking a few minutes to complete this questionnaire, fold, and seal return it to the research company using the International Business Reply Service - you do not need a stamp or an envelope.

The research results will be used by our editorial and marketing staff. Your reply will be treated in the strictest confidence as guaranteed by the code of conduct of ESOMAR (the European Society for Opinion and Marketing Research). We do not need you to provide your name, address or company details.

If you have any further comments about this, or other FT surveys, please do not hesitate to write to me directly.

Thank you for your help.

Yours sincerely,

Rhys David

RHYS DAVID
SURVEYS EDITOR

YOUR READERSHIP OF THE FINANCIAL TIMES

☐☐☐☐☐ 2 (1-6)

1. How often do you usually read or look at:
a. Monday to Friday issues of the Financial Times?
b. Saturday issues of the Financial Times?

	Monday to Friday (7)	Saturday (8)
Very frequently - at least 4 issues out of 5	☐1	☐1
Quite often - 2 or 3 issues out of 5	☐2	☐2
Less often	☐3	☐3
Never	☐4	☐4

2. Where do you usually read the Financial Times? (please tick all that apply)

	Monday to Friday (9)	Saturday (10)
At work	☐1	☐1
At home	☐2	☐2
While travelling	☐3	☐3
Elsewhere	☐4	☐4

3. The Financial Times publishes surveys most days each week, either within the main body of the newspaper, or as separate sections. On average, assuming five FT surveys are published per week, how many do you read or look at (either on the day they are published or at a later date)?

none	less than 1	1	2	3	4	5	(11)
☐	☐	☐	☐	☐	☐	☐	

YOUR READERSHIP OF THIS FT SURVEY

The following questions relate to this World Economy/IMF survey.

4. How much of the World Economy/IMF survey did you read/do you expect to have read once you have finished with it?

All	☐1	(12)
Almost all	☐2	
About half	☐3	
Less than half	☐4	
Did not read it - skip to Q11	☐5	

5. Apart from yourself, how many other people will read your copy of this survey?

None	1	2	3-4	5-9	10+	don't know	(13)
☐	☐	☐	☐	☐	☐	☐	

6a. What will you do with this survey once you have finished reading it?

Keep the copy or selected pages for further reference	☐1	(14)
Pass it on to a colleague	☐2	
Throw it away - skip to Q7	☐3	

6b. If this survey is kept for future reference, where will it be kept?

In the company library/another central location	☐1	(15)
In your own office	☐2	
In another office/department	☐3	
At home	☐4	
Elsewhere	☐5	

7. A number of statements are written below which might apply to the World Economy/IMF survey. Please indicate how strongly you agree or disagree with each statement.

	Agree strongly 1	Agree slightly 2	Disagree slightly 3	Disagree strongly 4	
It is well written	☐	☐	☐	☐	(16)
It contains information which is new to me	☐	☐	☐	☐	(17)
It is useful to me in my work	☐	☐	☐	☐	(18)
It is well laid out and presented	☐	☐	☐	☐	(19)
It is authoritative and credible	☐	☐	☐	☐	(20)
It is independent and unbiased	☐	☐	☐	☐	(21)
It is up to date	☐	☐	☐	☐	(22)

8. Overall, how would you rate this World Economy/IMF survey?

Excellent	Very Good	Fair	Poor	(23)
☐ 1	☐ 2	☐ 3	☐ 4	

9. Are there any other comments you have about this survey? (please write in)

.... (24)
.... (25)
.... (26)

10. Which, if any, of the advertisers listed below do you remember seeing in this survey?

Citibank	☐1	Jardine Fleming	☐8	(27)
Zurich Insurance	☐2	JP Morgan	☐9	
BZW	☐3	Dresdner Bank	☐0	
WestLB	☐4	Bankers Trust	☐X	
Banco Do Brazil S.A.	☐5	HSBC	☐Y	
Merrill Lynch	☐6	Bank of America	☐Z	
Sanwa Bank	☐7			

ABOUT FT SURVEYS IN GENERAL

11a. Which, if any, of the following surveys published recently by the Financial Times did you read or look at?

Aerospace	☐1	(28)
Reinsurance	☐2	
Infrastructure in Latin America	☐3	
Kansai	☐4	
Power in Asia	☐5	
Europe's Most Respected Companies	☐6	
International Telecommunications	☐7	
Venture & Development Capital	☐8	
Chemicals	☐9	
UK Rail Privatisation	☐0	

11b. Which, if any, of the Finance surveys published earlier this year, did you read or look at?

International Corporate Finance (May)	☐1	(29)
German Banking (June)	☐2	
International Capital Markets (June)	☐3	
None of these	☐4	

12. A number of statements are written below which might apply, in general, to the range of surveys produced by the Financial Times. Please indicate how strongly you agree or disagree with each one.

	Agree strongly 1	Agree slightly 2	Disagree slightly 3	Disagree strongly 4	
FT surveys are well written	☐	☐	☐	☐	(30)
They are useful to me in my work	☐	☐	☐	☐	(31)
They cover a wide range of topics	☐	☐	☐	☐	(32)
They provide information I cannot find elsewhere/ would not see otherwise	☐	☐	☐	☐	(33)
They are better than those produced by other publications	☐	☐	☐	☐	(34)
The writing is independent and unbiased	☐	☐	☐	☐	(35)
They help me to keep informed about new trends and developments	☐	☐	☐	☐	(36)
They are accurate and up to date	☐	☐	☐	☐	(37)

13. In general, how would you rate FT surveys?

Excellent	Very Good	Fair	Poor	(38)
☐ 1	☐ 2	☐ 3	☐ 4	

14. In which subjects or geographical areas are you particularly interested? (please include any which are not currently covered by the Financial Times)

.... (39)
.... (40)
.... (41)

15. In which, if any, of the following ways do you use FT surveys? (please tick all that apply)

As a briefing before visiting the country or region featured	☐1	(42)
As a part of your background research on a particular project	☐2	
To keep you up to date with a particular industry, country or region	☐3	
To incorporate into presentations, reports or other documents	☐4	
To show clients, suppliers or other contacts	☐5	
To keep you generally informed	☐6	
In other ways (please write in)	☐7	

16. How do you generally find out about forthcoming FT surveys?

I look at the Guide to the Week (in Monday's paper)	☐1	(43)
I see the advance notices in the paper	☐2	
I receive an advance topic list from the Financial Times	☐3	
I just come across them on the day of publication	☐4	
Editorial contact	☐5	
Advertising contact	☐6	
PR contact	☐7	
Other	☐8	

17. In which of the following ways have you obtained copies of FT surveys? (please tick all that apply)

In your own or someone else's copy of the paper	☐1	(44)
Had it passed on to you by a colleague	☐2	
In a library, archive or similar place	☐3	
Via www.FT.com (the Financial Times on the Internet)	☐4	
On computer disc	☐5	
On microfiche	☐6	
Via FT Profile	☐7	
Purchased a back copy from the Financial Times	☐8	

18. Have you ever contacted a company or organisation as a result of seeing an article or advertisement in an FT survey?

Yes - after reading an advertisement	☐1	(45)
Yes - after reading an article	☐2	
No	☐3	

19. If FT surveys were available electronically, in which of the following formats would you be interested?

Computer diskette	CD Rom	Via the Internet	None of these	(46)
☐ 1	☐ 2	☐ 3	☐ 4	

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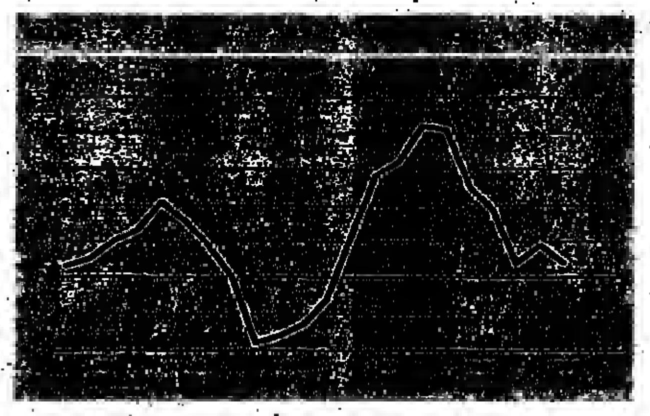
FOLD 1

FOLD 2

■ **France:** by Andrew Jack

Easing the road to Maastricht

The government is confident its tough policies will enable Emu criteria to be met



Time is running out for France as it prepares for European monetary union, but Jean Arthuis, the country's economics and finance minister, remains confident that everything is going to plan.

In mid-September, he unveiled a 1997 budget which for the first time in many years aims to freeze public expenditure, after adjusting for inflation, shaving just FFr4bn off 1996 levels to leave a budget deficit of FFr284bn.

"We were late in realising that high public spending risked stifling the economy and destroyed the potential for creating jobs," he says. "There was a feeling that ever-bigher spending was inevitable. But now the direction is turning. We bave broken with a long period of immobility."

His efforts to achieve this goal include an historic reduction by natural wastage in the number of France's 2m civil servants, albeit by the extremely modest figure of 6,000-7,000 – well below the figure of more than 40,000 who retire each year.

This initiative and others to cut spending across all government departments mean that he feels confident the country will achieve its goal outlined in its first budget last year after the election of President Jacques Chirac: to cut the deficit as a proportion of GDP to 4 per cent this year and 3 per cent in 1997, meeting one of the most important criteria in the Maastricht treaty for monetary union.

Mr Arthuis refuses publicly even to discuss the possibility that the target may be unachievable, or that either the criteria should be modified or that the calendar slip. "We want the treaty, all the treaty and nothing but the treaty," he says defiantly.

But not everyone is as confident as the minister. The performance of the domestic economy has been extremely disappointing, with growth sluggish and estimates periodically down-graded. GDP in the second quarter fell by 0.4 per cent. The government's own figure for the year is now standing at 1.3 per cent, while a number of economists put it at below 1 per cent.

The persistent relatively high cost of borrowing and the corresponding lack of investment by businesses, combined with disappointing levels of consumption, show little sign of changing.

France's social security deficit – driven by high unemployment and a jump in medical expenses – looks set to be more than three times the anticipated level of FFr17bn. The impact of the government's reforms to the existing system has yet to be seen, and the figures are likely to remain significantly in the red next year.

Meanwhile, a package of tax cuts unveiled by Mr Alain Juppé, the prime minister, at the start of September, which is designed to cut income taxes by FFr25bn for 1996, has been seen by many as too complex, and offset by too many other rising charges to help boost consumer confidence and spending.

Furthermore, with at least one wary eye on the widespread social unrest unleashed at the end of last year, and recent threats of a repetition from union leaders this autumn, the government has not risked repeating its civil service wage freeze for 1997.

Jean Arthuis: confident that everything is going to plan

As a result, it should come as no surprise that the financial markets have come under heavy pressure in the past few months, and there has been a renewed round of criticism of the Bank of France's *franc fort* policy and the supposed *pensée unique* or single, technocratic and economically liberal way of thinking currently being practised.

But while many commentators remain sceptical about the value of the government's current reforms, and pessimistic about the short-term prospects for the economy, there is a growing current of feeling that the 3 per cent target next year may yet be achieved.

Their concern is the price to be paid for attaining the magic 3 per cent. They argue that the government is using accounting tricks to get there, and there may be a substantial subsequent rebound in spending.

For example, it will offset its 1997 deficit with a FFr37.5bn transfer in pension fund assets from employees of France Télécom, in exchange for taking control of their future retirement income, as part of a deal leading to a partial sale of the group in spring 1997.

Other possibilities, include a levy from the state-owned monopoly Electricité de France, and possibly from other public enterprises including the Caisse des Dépôts et Consignations financial institution, which Mr Arthuis likens to a bank holding the state's money, and from which it is therefore entitled to withdraw as much as it wants, when it wants.

Even more intriguing financial manipulations are also likely. EU rules forbid the government from using privatisation receipts to offset its deficit. But Mr Arthuis says the FFr2.6bn cost of a state takeover of Crédit Foncier de France, a specialist property bank, will not count towards public spending because it will be financed from the sale of other public companies.

Eyes will similarly be on the techniques used to bolster other state-owned enterprises demanding extra support, including Crédit Lyonnais, the bank now on to its third restructuring plan in three years in the wake of expansionist and loss-making policies adopted in the late 1980s and early 1990s.

The minister dismisses any suggestion that the fall in the deficit will be short-term, arguing that the budget deficit will remain at 3 per cent of GDP for 1998 and thereafter falling progressively to 2 per cent by 2003. But considerable uncertainties remain between now and then, not least the elections to the National Assembly in 1998, which under some estimates will lead to a victory for the socialist party.

The government also faces the prospect of growing political divisions even within the ranks of its own centre-right ruling majority, including the unusual bedfellows of Mr Edouard Balladur, the former prime minister, Mr Charles Pasqua, the ex-interior minister, and the economically-liberal Mr Alain Madelin, briefly Mr Arthuis' predecessor until he was forced out of the cabinet after disagreements with Mr Juppé last summer.

■ **The Benelux countries:** by Caroline Southey

Two out of three are well on course

Belgium's debt is hampering its efforts to gain early entry to Emu

Two out of three is not a bad score by most standards. This is the pass rate for membership of European economic and monetary union notched up by the Benelux countries, with Luxembourg and the Netherlands expected to be among the first Emu entrants in 1999, along with Germany, France, Austria and Ireland.

Luxembourg is in the enviable position of having met all five of the convergence criteria even at this early stage. It ontperforms the other EU member states on two of the toughest criteria – public debt and budget deficits.

The European Commission forecasts that Luxembourg will record public debt of 6.2 per cent in 1996 and a budget surplus of 0.7 per cent of GDP. The Commission estimated inflation had been 2 per cent in 1995.

The Grand Duchy has the added advantage of having experienced the joys and agonies of monetary union during a 75-year-old arrangement with Belgium.

The Netherlands falls into the category of countries most likely to meet the criteria by the 1999 deadline, even though at present it falls short on the public debt and the budget deficit targets.

Debt as a percentage of GDP is expected to fall from 79 per cent last year to 78.7 in 1997, according to the Commission. The budget deficit is expected to decline from an anticipated 3.4 per cent in 1995 to 2.9 per cent in 1997.

Albert Dierick, chief economist for Rabobank, says the Netherlands is doing well "on all fronts". He adds that the Dntch government is reaping the benefits of structural reforms introdnced over the past five years, including a policy of wage restraint and a revision of the social security system.

"The government is confident that we will be in the first EMU coach," Mr Dierick said. "It believes the downward trend of the debt criteria will justify entry on the grounds that the movement is eatisfactory and sufficient."

For Belgium, the goal of compliance will be harder to achieve. Although it meets the first three criteria on inflation, interest rates and exchange rates, it misses those relating to the budget deficit and debt.

Bnt, against formidable odds – including the highest debt in the EU at 133.8 per cent of GDP last year – the country'e politicians are tenaciously pursuing the target of early membership.

Belgium's determination is driven partly by economic necessity since more than half of its exports go to neighbours (France, Germany, the Netherlands and Luxembourg), all likely candidates for early membership.

Peter Praet, chief economist for Generale de Banque, says Belgium's failure to qualify for entry into EMU in 1999 would have "catastrophic consequences" for the country.

"It would lead to increased tensions between the Flemisb north and Wallonian south," be predicts, and would potentially create "chaos in the bond market".

The urgency of Belgium's need prompted prime minister Jean-Lnc Dehaene to take special powers to draw up the 1997 budget without parliamentary consent. With the passing of three "framework" laws agreed by parliament in late July – which allow the government to issue decrees without parliamentary consent on the 1997 bndget, the over-burdened social security system and improving competitiveness – Mr Dehaene has been given a free hand to impose whatever measures he deems necessary.

His primary targets will be to cut the budget deficit to 3 per cent of GDP, and to make inroads into the debt ratio.

The Belgian government hopes to reach the budget deficit target a year early to strengthen its hand in negotiations, as it is likely to remain some distance from the required 60 per cent for the debt ratio.

To achieve the 3 per cent target, savings of about Bfr24bn ($786m) will heve to be made. The public deficit was 4.5 per cent of GDP in 1995.

To do even better, as Philippe Maystadt, the Belgian finance minister has said he aims to do, further savings of Bfr80-90bn will have to be found.

Mr Dehaene has set a target of reducing the debt ratio by 10 percentage points, a big enough decline, in Belgium's view, to warrant ecceptance for EMU on the grounds that its debt is declining "sufficiently" and at a "satisfactory rate".

Generale de Banque'e chief economist Mr Praet believes the government can achieve its targets but warns that the headline figures are less important than Belgium's ability to prove that it is capable of achieving "sustainable convergence".

"It is vital that Belgium shows it can reform its budgetary procedures. Belgium gives the impression of taking structural decisions under stress only," he said. Nevertheless, Mr Praet believes Mr Dehaene's government is now "condemned to succeed".

Mr Praet warned against Belgium attempting to copy the formulae adopted by other countries, particularly the Netherlands. "There is a tendency to idealise what is happening in the Netherlands. It is an illusion to think we can copy their model. We have to do what we can within the limits of our own culture."

■ **Scandinavia:** by Greg McIvor

Membership divisions

Norway, Sweden, Denmark and Finland have sharply divergent approaches to Emu

Scandinavian countries harbour few illusions about the effect a European single currency would have on their economies, regardless of whether or not they join the monetary union.

The four main Nordic states all endured currency instability in the past five years. They know that remaining outside European economic and monetary union (Emu) would increase risks of adverse money market speculation and put interest rates under upwards pressure. Membership, however, would strip them of the devaluation weapon – a tool Scandinavian governments have not shirked in the past.

In spite of a tendency to march in step at the macro-economic level, the Nordics have sharply divergent approaches towards Emu. Finland, the most Europhile of the group, has geared its fiscal policy explicitly to secure a place among the first batch of EU states which will form the single currency next year.

Swedish prime minister Göran Persson also favours participation, but his government is hampered by strong public opposition. Denmark is qualified to join but would need a referendum to reverse the single currency opt-out it obtained in 1993. Norway, meanwhile, is a bystander after rejecting EU membership two years ago.

The contrasting attitudes reflect the varying economic and political fundamentals which apply across the region. Finland, which joined the EU with Sweden at the start of 1995, regards membership of the Emu club as an economic and political imperative. It sees a single currency not just as a way of insulating its crucial export-earning forestry and engineering sectors against currency uncertainty; it believes Emu entry would cement its links with western Europe after decades spent in Russia's shadow.

The five-party "rainbow" coalition led by Paavo Lipponen, the Finnish prime minister, has cut spending heavily in the past two years to curb state indebtedness and bring Finland inside EU conditions for monetary convergence. Following its 1997 budget, which will reduce expenditure by 5 per cent in real terms, Finland is poised to qualify for Emu next year.

Inflation is below 1 per cent and the state budget will be balanced in 1997. Gross public debt under the Emu definition will fall to 61 per cent of GDP next year, just outside the 60 per cent threshold but almost certainly sufficient for inclusion.

A crucial remaining structural problem is the level of central government debt – which excludes the surplus in social security and municipal budgets. This has risen sharply, from FM53bn ($11.75bn) in 1993 to FM70.8bn ($15.7bn) this year, due to recessionary pressures but is forecast to level off in 1998. Another worry is unemployment, running at more than 18 per cent.

The international slowdown which has affected the Finnish economy this year, in particular the important pulp and paper industry, is predicted to swing back up by 1997. The government predicts growth close to 4 per cent next year, against 2.8 per cent for 1996. Output has already started to recover and the construction industry, depressed since 1990, is also showing signs of a pick-up.

Sweden, too, is expecting better times after growth of around 1 per cent this year. GDP is expected to advance by around 1.5 per cent next year as private consumption gains momentum and export markets return to health. Successive cuts in interest rates this year have boosted the investment climate, and shown signs of injecting some impetus into private consumption. The government will be hoping for a knock-on effect on unemployment, its biggest political headache and persistently hovering around 13 per cent.

Like Finland, Sweden has focused on a tough debt reduction programme aimed at restoring stability to state finances and conforming with the Emu criteria. Inflation at 0.3 per cent is the lowest in Europe and the budget deficit target of 3 per cent should be reached next year. However, total public debt is at present more than 80 per cent – well outside the Emu barrier.

Even were Sweden to receive the green light from its Emu partners, it seems increasingly unlikely the government would join. Restrained by deep opposition among his Social Democratic party colleagues over a single currency, finance minister Erik Asbrink signalled last month that Sweden would probably not be among Emu's founder members.

The picture is similar in Denmark, one of only a handful of EU states already qualified for monetary union. Tied by its opt-out over a single currency, the government nevertheless wants a "very tight arrangement" with Emu members involving a narrow band exchange rate link to the planned Euro currency. The view is echoed by leading Danish bankers, who have raised fears that non-participation in Emu could lead to big difficulties for the country's financial services sector.

Government forecasts of 3 per cent growth next year have been criticised for being over-optimistic, but the economy is nonetheless likely to expand by more than 2 per cent. Unemployment is seen as falling from 9 per cent to 8.6 per cent, although the number of people on training and job creation schemes makes the real figure significantly higher. The budget deficit is a little over 1 per cent of GDP and set to fall further next year, although the aim of balancing the budget by 1998 will prove harder to meet given the demands of Denmark's extensive welfare state.

While the Emu debate rages among its neighbours, Norway sits quietly on the sidelines. Norwegians rejected EU membership in 1994 but although the government pushed hard for a "yes" vote at the time, ministers cannot be too dismayed at the reality of life on the periphery.

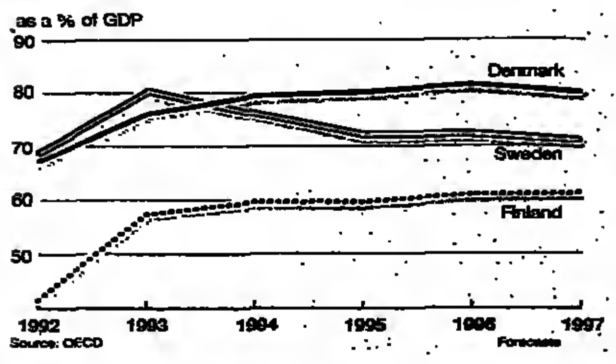
They and many pundits warned of higher interest rates, growing unemployment and an exodus of Norwegian industry if the country repudiated Brussels. They could not have been more wrong: Norway's oil-based economy has surged in the past two years and is now one of the strongest in Europe. Booming offshore revenues will push economic growth above 4 per cent this year, the highest rate in Scandinavia.

The mainland economy is growing at 3 per cent, aided by strong growth in household demand. Norway's status as the world's second biggest oil exporter after Saudi Arabia has brought a state budget surplus and a buoyant balance of trade. Interest rates are low.

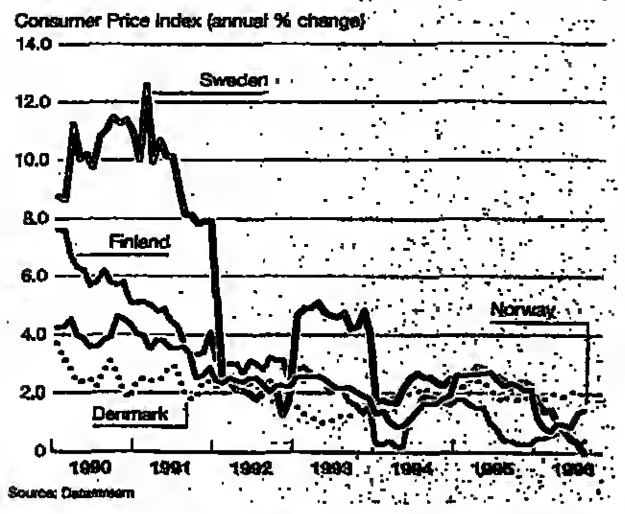
The only cloud on the horizon is inflation, now at 1.5 per cent but expected to rise above 2 per cent by December 31 due to higher electricity prices, strong wage rises and increased private consumption. Analysts believe interest rates may have to move upwards next year to control price growth.

Swedish premier, Goran Persson: Emu supporter

Public debt



Inflation



■ **Italy:** by Robert Graham

Feel-good factor proves elusive

A strong second half recovery in home and overseas markets looks unlikely

Italy is in the midst of a domestic slowdown which is far sharper and longer than anticipated and which is pushing the economy to the verge of recession.

Throughout the year growth projections have been revised downwards from the 3 per cent target fixed by the Dini government in the autumn of 1995. The latest official figure of 1.2 per cent, produced by the centre-left Prodi government at the end of June, looks increasingly optimistic.

This was based on the hope that the second half of 1996 would see a slight recovery in domestic activity as well as in the economies of Italy's main trading partners. Such a scenario looks less probable at home and abroad and the economy could grow no more than 0.9 per cent. This in turn would put the 2 per cent target for 1997 growth in doubt.

At home consumption has been exceptionally weak. Among the Italian public there is a total absence of any feel-good factor despite this having been an election year. For instance, the number of television sets sold in the first half of the year was down 6.5 per cent on the same period in 1995 even though popular events such as the European football championships and the Olympics were being staged. Car sales are stagnant which is unusual when Fiat launches an appealing batch of new models. This year no more than 1.8m new cars are likely to be registered compared to 2.4m in the boom year of 1992.

The downturn is evident across the board in industrial production. This is underlined by the drop in steel production. In the first seven months it was down more than 12 per cent on the same period in 1995, compared with an average fall in the EU of around 8 per cent.

Last autumn, the normally cautious Bank of Italy believed 3 per cent growth was realistic. This was largely based on a boost in domestic consumption. This has failed to materialise as families feel an ever tightening squeeze on their budgets as a result of higher tax payments and a three-year decline in the purchasing power of wages. Statistics show, for instance, that the average family is now spending considerably less than three years ago on food.

Indeed, one of the explanations behind the exceptional (by Italian standards) decline in inflation the past four months has been the drying up of demand. Inflation in August was running at an annualised 3.3 per cent, a level not seen since 1969.

At the industrial level, production has been affected by the drying up of the effect of the "Tremonti Law". This was a generous tax break offered in the 1995 budget to companies that reinvested their profits. This encouraged a significant degree of new capital investment – especially in the industrial north. The tax incentive was extended into the early part of this year after strong pressure from industry; but was then cut for all of the country save the south. Investment has also been influenced by the Bank of Italy's continued tight monetary policy. Interest rates have been kept high with the discount rate only cut (0.75 of a percentage point) in July after 14 months at 9 per cent.

Also affecting the slowdown has been the steady strengthening of the lira. In nine months the lira has gained nearly 15 per cent against the D-Mark. Indeed, the lira has gained to the point where Confindustria, the industrialists' confederation, is concerned the currency might have strengthened to the point of putting exports at risk. The stronger lira, combined with sluggish growth in the main EU markets – plus a slowing in some of the main emerging economies – has hit the export drive. Here it is worth stressing that Italy's growth since the 1992 European currency crisis and the lira was forced out of the European exchange rate mechanism (ERM) has been almost exclusively export-led.

In such a climate unemployment has become an important concern. The Dini government's three-year macroeconomic projections in 1995 envisaged the number of jobless would be 10.8 per cent of the active labour force. The June correction by the new Prodi government to 11.8 per cent already looks overly optimistic and the present level is more than 12 per cent.

This autumn the Prodi government will come under strong pressure from the unions to come up with some effective job creation measures. The unions will also press in a series of crucial sectorial wage negotiations for an increase in earnings well above the projected levels of inflation. Already this year some contracts have fixed 3 per cent increases for 1997 against inflation of 2.5 per cent. This has been permitted on the grounds that the 1993 tri-partite agreement with unions, government and employers, ending indexation, envisaged some recovery of lost earnings after two years.

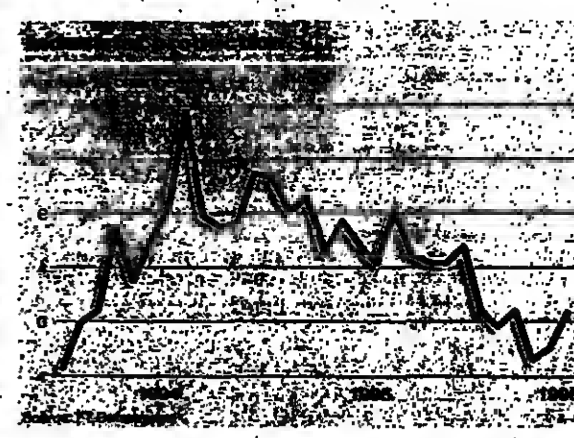
The treasury and Bank of Italy are determined to prevent inflationary pressures returning. However, the unions may be able to win some wage increases above inflation if the government is convinced this will keep the social peace and inject some spending power into the economy to kick-start a recovery.

If the economy fails to pick up in the autumn, the government will almost certainly be obliged to reconsider its budgetary policy. Already there is doubt over the effectiveness of the June L16,000bn mini-budget. This is intended to hold the 1996 deficit down to L109,000bn equivalent to 5.9 per cent of GDP. But the economic slowdown is affecting treasury receipts, and the deficit could be closer to L120,000bn.

By the end of this month the government must present the details of its 1997 budget to parliament. The outline was unveiled before the summer – aiming to find L32,000bn in new taxes and spending cuts to reduce the deficit to 4.5 per cent of GDP. Here the government faces both a political problem and one of economic management. Politically it has to find the right mix between new taxes and spending cuts. This will be very difficult. The main fat in the system is to be found in health and welfare payments (notably pensions). But any attempt to carry out a further reform of pensions, so soon after the 1995 Dini shake-up, will be strongly resisted by the unions. At the same time the need to trim public spending and to find new taxes (without raising the fiscal pressure too noticeably) could result in measures that push the economy into recession.

On the positive side the government hopes that interest rates will have fallen by some two percentage points during the course of this year. This is not unreasonable given falling inflation and the clear commitment by the government to put the public accounts in order. Every one percentage point fall in interest rates reduces the cost of servicing Italy's debt by some L15,000bn over 18 months. The impact of lower interest rates can be gauged from the fact that Italy runs a big primary surplus (the differences between receipts and expenditures less debt service). This year it will be 4.5 per cent of GDP.

But even if the government can stick to its macro-economic programme, this still means Italy will not be able to reduce its budget deficit to 3 per cent of GDP by the end of 1997 – the target set by the Maastricht Treaty for preparing for monetary union. At best Italy will be a year late, and could be more if EU accounting methods are followed. At present the treasury does not include certain expenditures of the public administration including the payment of withholding tax on government bonds, any losses incurred on bond issues, and the cost of complying with a constitutional court decision to pay arrears on minimum pensions. If these are included the projected 1997 budget deficit would be closer to 5.6 per cent of GDP.



■ **Eastern and central Europe:** by Anthony Robinson

Currency rises bolster GDP

The gap between countries embracing reform and the rest is growing wider

The emergence of east and central Europe as a rapidly growing market, and as a source of relatively cheap industrial semi-products and components for western European, and especially German companies, is gathering pace. Rising wages, and above all rapid currency appreciation, have created large increases in real incomes and spending power, especially in Poland and the Czech republic.

The slowdown in west European markets ensured that the overall pace of economic growth slowed somewhat this year compared with 1995 when booming exports fed double digit growth in industrial output. The dominant feature of 1996 in central Europe, in particular, has instead been a boom in consumer and capital goods imports and domestic consumption, which has superseded last year's export-led growth.

Meanwhile, rising foreign and domestic investment, particularly in the central European core countries between the Baltic and the Adriatic, is helping to sustain the rising labour productivity which is especially evident in all five nations of the Central European Free Trade Area (CEFTA) – the Czech republic, Hungary, Poland, Slovakia and Slovenia – and the Baltic states.

While 4-7 per cent annual GDP growth is now well established in the "fast-track" reformist states of central Europe, a recent study by the European Bank for Reconstruction and Development (EBRD) showed that real currency appreciation has caused the biggest increase in nominal dollar gross domestic product over the last two years.

The main exceptions are Bulgaria which has suffered a 65 per cent decline in dollar denominated gdp this year, and Hungary, where resources have been shifted out of consumption and into repaying debt and correcting an earlier unsustainable payments deficit.

The effective revaluation of national currencies, as economies recovered from the slump which accompanied the first years of systemic reform, led for example to a 45 per cent rise in Russia's nominal gdp from $286bn in 1994 to $414bn last year, while Poland's dollar gdp jumped 28 per cent to $121bn and the Czech republic saw its gdp rise 24 per cent from $36bn to $45bn.

At an east-west economic conference in Salzburg in July, Mr Grzegorz Kolodko, the Polish finance minister, estimated that by the year 2000 a combination of continuing rapid economic growth of between 5-7 per cent a year and zloty appreciation would have boosted Poland's dollar gdp to more than $200bn by the turn of the century, nearly 50 per cent of Russia's current gdp levels.

Rapidly rising labour productivity has also underpinned the sharp increase in real incomes as socialist-era lose-makers have been closed, downsized or privatised and new 'greenfield' investments, new service industries, rational pricing and trade policies, and better management have produced widespread efficiency gains.

Widening income differentials and unemployment have led to further increases in effective purchasing power, concentrating wealth into relatively fewer but higher incomes. The net effect of such developments has been to make the economies of central Europe in particular more import-intensive and similar to the "normal" market-orientated economies of western Europe.

Sharply higher consumer goods imports have been accompanied by higher imports of capital goods needed to sustain economic growth. The net result is that Poland, for example, registered a $3.1bn trade deficit over the first half of 1996 compared with $453m in the first half of 1995 when exports were booming and imports were still relatively modest. Imports rose 30 per cent over the period while exports rose only 6.4 per cent after soaring nearly 40 per cent in 1995. Roughly 80 per cent of the import bill, however, was accounted for by imports of capital equipment or components, such as car parts or textiles, subsequently re-exported or used in the production process.

It is a similar story in the Czech republic and Slovakia which are both showing record levels of imports and sluggish export growth. The sustainability of rising trade and current account deficits is now being questioned. In Poland's case strong foreign currency inflows from cash-based cross-border trade and rising foreign investment has ensured that the reserves have continued to rise despite the growing trade and current account deficit.

The Czech republic similarly enjoys special factors such as strong tourism inflows and foreign investment to ensure that rising imports, specially of investment goods, remain easily financeable. But a spate of bank failures and doubts about the pace of industrial restructuring indicate a possibly tricky period ahead for the newly elected Czech coalition government, while Slovakia, which remains heavily dependent on industrial exports to its neighbours and is politically less orthodox, could find itself obliged to rein in the rapid growth which is sucking in imports at a possibly unsustainable rate.

Meanwhile, the gap between those countries which have kept budget deficits under control, opened up to foreign trade and investment and encouraged privatisation and other reforms, and those which have failed to grasp the reform nettle, is growing wider. Bulgaria, whose currency lost nearly 50 per cent of its value in a few weeks in early summer, and to a lesser degree Romania, have both demonstrated the cost of trying to muddle through without a coherent market-based reform strategy, including rapid privatisation and banking reform.

Bulgaria, saddled with heavy foreign debt, has little alternative but finally to implement tough measures, including faster privatisation, set as pre-conditions for the granting of a $582m IMF standby credit in July. Romania's low debt and broader resource base means that the measures needed to stem inflation and modernise the economy will not be introduced until after elections in late October.

Romania's "dash for growth" led to an official 6.9 per cent growth in gdp last year which sucked in imports and re-ignited inflation. A further 4.5 per cent growth is expected this year, reflecting reluctance to cool the economy and concentrate on building macro-economic stability until the elections are over.

A still somewhat tenuous end to conflict in former Yugoslavia, international support for the reconstruction of Bosnia, and the reopening of the main transit routes through Serbia, offer a glimmer of hope for economic recovery in the broader Balkan region.

Slovenia, which has prospered in independence and managed to shift its trade westward while war raged elsewhere, hopes to regain old markets throughout former Yugoslavia. Over the past two years Croatia has also been able to remodel its economy on market lines and boost ties with EU countries, especially Germany.

Serbia however is only now coming to terms with the appalling economic legacy of a war which stopped structural reform in its tracks and cut the country off from legal trade and other links with the outside world.

The recent application of the rump Yugoslavia, consisting of Serbia and Montenegro, for IMF membership, together with Belgrade's reluctant acceptance of a more realistic approach to the division of former Yugoslav assets and its search for foreign finance and investment reflect awareness of the economic fragility of landlocked Serbia with its unviable socialist heavy industry and militarised structures, and the desperate need to open up the economy.

Further east, the contribution from rapid but under-reported growth of the service and other private sectors in Russia is about to overtake that from the still declining traditional heavy industrial sectors, though these, too, are starting to benefit from privatisation, better management and a phasing out of wasteful barter arrangements.

Barring political accidents Russia appears to be heading for a period of possibly rapid and sustained economic growth. Turbulent times still lie ahead, however, for an over-populated and under-capitalised banking sector facing painful consolidation in the new low-inflation environment.

Belarus under its unstable and economically naive president, has proved unable to *emulate the reform model* projected by its western neighbour, Poland. Instead, President Alexander Lukashenka has rejected World Bank and IMF advice and is relying on a bail-out from a reluctant Russia whose own painful conversion to rational economics is within *sight of being rewarded* with e resumption of economic growth, provided the Chechen question is resolved and resources are not squandered on other diversions.

Ukraine, blighted by another poor harvest and a half-hearted commitment to reform, is still some way *from building a solid base* for economic take-off. At the start of this month currency reform replaced the inflation-raddled karbovanets currency coupon with a new currency called the hryvna.

Kiev's hope that the reform will be as successful as that which turned Poland's new *zloty* into a respectable hard currency last year depends for its fulfilment on complementing the macro-economic stabilisation measures which vanquished hyper-inflation with more privatisation and micro-economic reform at the enterprise level.

Central and eastern European countries in transition

Country	Population (millions) Mid-1994	Per capita GDP ($) 1994	Economic growth¹ 1990-93	Economic growth¹ 1994-95	Inflation rate² 1995
Slovenia	2.0	7,040	-4.7³	4.5	12.6
Hungary	10.3	3,340	-4.2	2.3	28.2
Czech Republic	10.3	3,200	-5.6	3.8	9.1
Estonia	1.5	2,820	-14.4	5.0	29.0
Russia	148.3	2,650	-8.0	-8.8	190.0
Croatia	4.8	2,560	-10.4³	1.9	4.1
Poland	38.5	2,410	-3.1	6.3	27.8
Latvia	2.5	2,320	-14.8	0.5	25.0
Slovakia	5.3	2,250	-6.9	5.9	8.9
Belarus	10.4	2,160	-5.9	-16.8	800.0
Ukraine	51.9	1,910	-8.9	-18.2	375.0
Lithuania	3.7	1,350	-18.0	2.5	35.0
Romania	22.7	1,270	-7.8	4.7	32.3
Bulgaria	8.4	1,250	-7.8	1.5	62.0
Moldova	4.3	870	-13.5	-10.1	30.0
Macedonia	2.1	820	-11.4³	-4.9	50.0
Albania	3.2	380	-9.1	8.7	8.0

¹ Average annual growth rate of GDP; ² Rise in consumer prices; ³ 1991 to 1993 Source: World Bank, World Development Report 1996

■ **Spain and Portugal:** by David White

Determined to make the grade

Establishment support for Emu may not be wholly shared by the public

As the qualification deadline for European monetary union approaches, Spain and Portugal seem likely to face an increasing challenge to their credibility.

Neither government is willing to countenance any ambiguity over its determination to make the grade. Both are working on the assumption they will be able – with an effort – to join the single currency at its launch, but the widespread belief among outside observers is that they will not.

The two countries are at best borderline cases. Along with Italy and Greece, they fail so far to qualify on any of the criteria laid down in the *Maastricht* treaty for entry. But their political establishments – the current governments and main opposition parties alike – are fervently committed to monetary union, and the targets for complying have become the dominant objectives governing economic policies in both the short and medium term.

Although the governments in Madrid and Lisbon are of opposite colours, recent trends show broad similarities. The budgets being pushed through this autumn attempt to reconcile toughness with preservation of welfare benefits. Public sector borrowing requirements are successfully being reduced, although the question remains whether this will happen fast enough for Maastricht targets, especially in Spain's case. Inflation rates have come down below four per cent.

Both Spain and Portugal have had landmark elections in the last year, changing governments for the first time since the two countries joined the European Community in 1986. In both cases – Portugal's new Socialist government, replacing the centre-right, and Spain's new centre-right government, replacing the Socialists – the governing party falls short of an outright majority and is having to court support for its budget plans.

What the political cost might be of failing to become part of the first group of single-currency countries is difficult to assess. In Spain, the aim of being at the centre of *European integration* has so far gone almost entirely unquestioned. Outside the Communist-led United Left party, there has been little evidence of opposition to Maastricht.

It came as a surprise, therefore, when a recent opinion poll in the daily El Mundo raised the issue of whether it was worth all the effort: 41.7 per cent said it was not, against 35.7 per cent who thought it was. The balance of views was against cuts in infrastructure spending or next year's proposed freeze in public sector wages. Opposition came mostly from the left but included more than 20 per cent of the respondents who had voted for the new Popular Party government of Mr José María Aznar.

This poll result deserves to be treated with some caution, especially since El Mundo itself has gone out on a limb criticising the Maastricht programme as being damaging for Spain. Most observers believe public opinion will continue to support efforts to join the EU "first division".

Portugal faces more opposition to the programme, not only from the Communists but also from the leadership of its small, conservative Popular Party. The Socialists' budget plans for this year were passed, thanks to a pact with this party, but it cannot be counted on to repeat its support. On the other hand the main opposition, the centre-right Social Democrat Party, is pro-Maastricht and is thought unlikely to put up strong opposition to a 1997 budget designed to try to meet the deficit target of 3 per cent of gross domestic product.

Portugal's recent performance – in both its public deficit and inflation – has raised the prospect of its coming closer to qualifying than its larger Iberian neighbour. The Lisbon government says it could join the *single currency even if Spain* did not. There is some scepticism about this position, however, in view of the potential competitive risk to Portuguese producers.

Spain's effort to reach the critical 3 per cent deficit target appears to be a tall order. Initial cuts in 1996 spending announced by the new government amounting to Pta200bn ($1.6bn) were widely regarded as erring on the side of timidity. The government subseqnently revealed what it claimed was a Pta721bn "hole" in the accounts it inherited, including commitments on public works contracts and signifying a net *Pta548bn* increase in the borrowing requirement. This is being funded from higher taxes on tobacco and spirits. The government wants the shortfall to be counted in last year's figures, which would raise the official 1995 deficit to around 6.5 per cent of GDP instead of 5.8 per cent.

The aim for this year is keep the overall public sector deficit to 4.4 per cent of GDP. Santander Investment, merchant banking arm of the Santander banking group, reckons there is "a distinct possibility that a decisive budget can put Spain within the 3 per cent of GDP limit" in 1997. Reduction of the deficit is helped by lower interest rates and falling unemployment payments – even though the official labour force survey showed a jobless rate in the second quarter still over 22 per cent, easily the highest in the EU. However, Mr Henrik Lumboldt, chief economist at Bank of America in Madrid, expects the deficit to remain at more than 5 per cent of GDP this year, leaving Spain some distance from achieving the 3 per cent target in 1997.

António Guterres: Portugal on course for convergence target

The Aznar government was hoping its election victory in March would coincide with a strong economic recovery, bringing with it e strong rise in government revenues. But, in line with trends in Spain's main EU export markets, growth forecasts have been sharply downgraded. Instead of the 3.4 per cent growth rate predicted by the outgoing administration, the government cut its estimate for this year to 2.3 per cent. Recent indications suggest that this – and hopes of an increase to 3 per cent next year – may be over-optimistic, with no convincing sign of a consumer recovery and investment growth falling off.

Slack demand has however helped Spain's inflation outlook, with the year-on-year rate expected to come down close to 3 per cent early next year.

Portugal, which uses annual average inflation as its yardstick, hopes to achieve a level of around 3 per cent at the end of the year, compared with 4.1 per cent at the end of 1995. On the deficit front, prime minister António Guterres has said Portugal should come within its convergence target for this year of 4.2 per cent of GDP. This follows a 5.2 per cent deficit last year, well below the initial objective of 5.8 per cent.

A recent report by Banco Portugues de Investimento says that despite the "ambitious" nature of the government's objectives, targets for meeting the single-market criteria on inflation, interest rates and the budget deficit "seem attainable". This would still leave the question of public debt, which in Portugal's case looks set to stay ebove 70 per cent of GDP, compared to the Maastricht target of 60 per cent. Bnt both countries are counting on greater flexibility being applied in this instance.

■ **Ukraine:** by Matthew Kaminski

Kiev looks west as turnround begins

The government still needs to maintain tight monetary and fiscal policies

Only two years ago, Ukraine had arguably the worst economic record in eastern Europe. The US government worried the country would break up or get embroiled in a violent conflict with Russia.

But the turnround since then has been impressive. Ukraine in September introduced its permanent currency, the hryvna, after the government had managed to stick to strong market medicine.

Inflation came down below 1 per cent a month this summer. The hryvna has stayed stable and capital inflows are rising.

Increasingly confident, the Kiev government has looked west, seeking warmer relations with the European Union and membership of the Western European Union, its defence arm. Few worry about an imminent civil war, or reunion with Russia. Ukraine, for the first time in history, controls its own destiny.

Success in revitalising the economy can hardly yet be declared, however. The track record on reform is short and patchy. The International Monetary Fund, since April, has backed Kiev with a $867m stand-by loan. A new $3.1bn three year deal might be ready for January.

The prerequisites for growth are, however, emerging. The government expects inflation this year to be 48 per cent, down from 182 per cent in 1995. The outlook for next year is better: at 25 per cent, inflation in 1997 would be broadly in line with Ukraine's central European neighbours. The draft 1997 budget envisages a 4 per cent fiscal deficit.

Pavlo Lazarenko, the prime minister who has come under criticism for his intimate ties with the oil and gas business, has pledged his support for tight monetary and fiscal policy but the upcoming winter will test the government's mettle in sticking to austerity measures.

Measures to achieve structural reform are still missing. The country underwrites many loss-making state dinosaurs and has yet to create an open market based on the rule of law. On both counts Ukraine lags behind Russia, which launched reform nearly three years earlier.

An ambitious mass privatisation programme has gathered momentum recently. More than 3,000 companies have been sold, but that leaves a further 18,000 large and medium-sized enterprises on state budget rolls, among them some of the country's better assets. The government has set aside 208 for sale to foreigners, which could actually delay privatisation further.

The investment climate also remains unfriendly. About half the economy works in the shadows, says the World Bank, reflecting high tax rates, formidable barriers to market entry and low confidence in the government.

Small business, an engine of growth elsewhere in eastern Europe, is in infancy; there are 1.2 small business for every 1,000 Ukrainians, compared with 7 per 1,000 in Russia and 20:1,000 in Poland. The Ukrainian business association blames official corruption for its troubles.

As local investors struggle, foreigners have put Ukraine toward the bottom of their priority lists. Total investment since independence recently topped $1bn - a small amount for an industrialised nstion of 52m people and a territory slightly bigger than France.

Ukraine needs both domestic and foreign capital for a resumption in growth. Gross domestic product fell 8.7 per cent in the first half of 1996, the steepest drop in the former countries of the USSR, and investment has to take place in an environment of high real interest rates.

Improving the conditions for investment will be at the top of the agenda. Victor Pynzanyk, depnty prime minister, says Ukraine'e goals this autumn are a tax overhaul, consolidation in the banking sector, and real transfer of ownership from the state sector, bnt such measures will be hard to implement against opposition from strong vested interests represented in cabinet and the parliament.

The danger for Ukraine, illustrated by the recent experiences of Bulgaria and Romania, is that stable prices and currency could prove hard to sustain if politically difficult structural reforms are neglected.

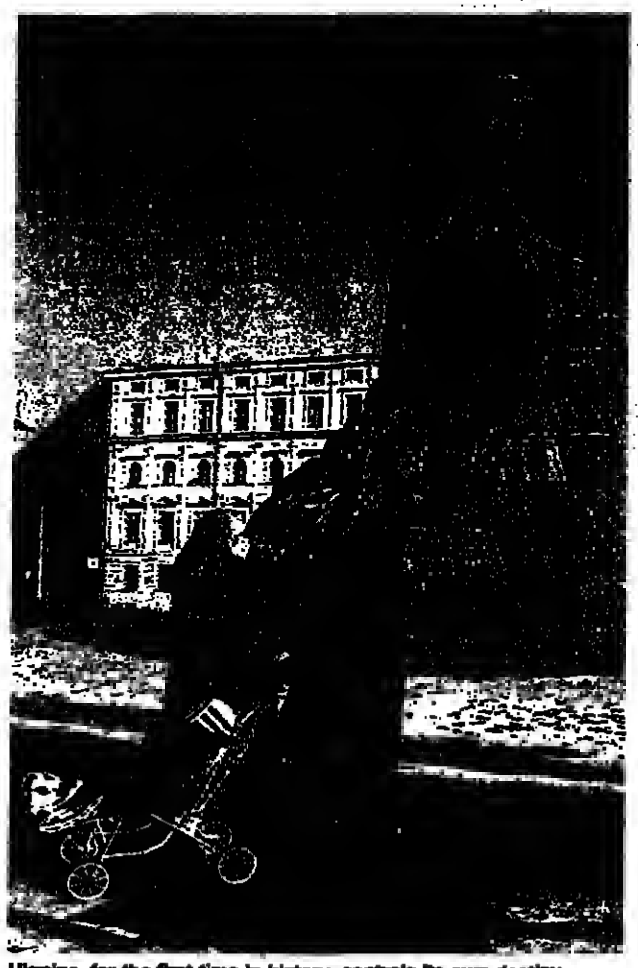
The improvements that have taken place so far, however, have have resulted in investors ehowing more interest. Ukrainian government securities offer attractive yields of around 50 per cent on three-month paper, and some banks have participated. Lack of liquidity and unclear rules on repatriation of profit have, however, dissuaded mainstream western portfolio managers and investment banks.

Some small investment funds have participated in Ukraine's fledgling equities market. Regent Pacific, the Hong Kong-based fund management group, announced plans in August for a $30-50m investment trust aimed at Ukraine's disorganised market, which some analysts estimate is capitalised at $1bn. Regent joins several others.

"The Ukrainian market is interesting, but not yet compelling," says Richard Dietz, a managing director at Renaissance Capital, a Moscow investment bank. A Kiev director of a western bank expects further interest once the mass privatisation programme has been completed.

The entry of western business would not just help to provide new jobs. Investors also might constitute a missing reform lobby. Currently, the IMF is the staunchest pro-reform group, and its power over the country'e precarious finances gives it important leverage in the absence of a politically and economically astute government reform group.

Yet, Ukraine has surprised donbters simply by surviving. President Leonid Kuchma began his term in office with a warning and an exhortation: "There is no way back for Ukraine." Two years later, his message looks almost irrelevant. The path may be winding, and full of wrong turns, but Ukraine is today moving forward.



Ukraine, for the first time in history, controls its own destiny

■ **Poland:** by Anthony Robinson

The soaring eagle is flying higher

The process of transition to a market-based democracy is taking place

Poland's ability to combine rapid economic growth with gently declining inflation, and the determination of successive governments to maintain macroeconomic stability despite a backdrop of political turbulence has made it increasingly attractive to foreign investors and banks.

The "soaring eagle" image evoked by Grzegorz Kolodko, the finance minister, fits an economy where entrepreneurial skill and a willingness to adopt new methods and new technology have led to double-digit productivity gains and the prospect of an extended period of 5-7 per cent annual growth.

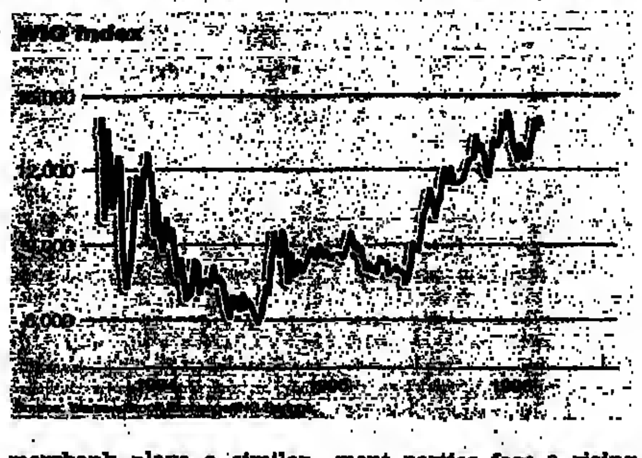
Higher productivity has helped to compensate for the high cost and difficulty of raising loans from a domestic banking system hitherto hamstrung by extensive bad loan portfolios, inexperience and under-capitalisation. In the absence of easily available bank finance, a multitude of small and medium companies has had to rely largely on re-invested profits to sustain expansion in this export-orientated economy of 39m inhabitants strategically placed between Germany and the former Soviet Union.

But one of the most significant developments of the past year has been the growing profitability and confidence of the banking system which has regietered strongly rising net profits eince the first quarter of 1995. Polish banks were obliged by the government to clean their balance sheets of bad loans, spend heavily on training and new equipment and plough profits back into reserves to become eligible for government-backed recapitalisation bonds. This tough approach is now etarting to yield results.

Bank consolidation still has a long way to go among the smaller of the 72 Polish commercial banks and the more than 1,500 small co-operative banks linked to BGZ, the troubled Food Economy Bank. But the process is accelerating with the loose merger of three state-owned regional banks with Pekao SA, the state-owned former hard currency bank to form the Pekao SA group with combined assets equivalent to 23 per cent of total assets of the banking system. With the prospect of large-scale infrastructure investments to modernise highway, railway, telecommunications and other infrastructure developments in the pipeline, consolidation is seen as a way of raising the lending ability of such combined groups.

Faced with growing competition from foreign banks Polish banks are also struggling to raise the quality and range of services offered and are showing increasing willingness to fund small- and medium-sized Polish businesses. With real incomes rising fast the banks are also venturing into hitherto neglected or non-existent sectors, such as consumer finance.

The Polish banks best placed to move into these new sectors are those such as Poznan-based Wielkopolski Bank Kredytowy (WBK), which has the Allied Irish Bank as a strategic investor and mentor, and the Katowice-based Bank Slaski, where the Dutch ING group has a controlling 54 per cent stake. ING provides the training and know-how required to set up the services required to keep the loyalty of both private and corporate customers. Germany's Commerzbank plays a similar role as minority shareholder in the Export Development Bank.



Over the past few months official interest rates have been steadily dropping in line with inflation, which is expected to decline to 17 per cent year on year by December from just under 22 per cent last year. The lower cost of borrowing provides an added incentive for cash-strapped companies to step up current low levels of bank debt.

Meanwhile, rapid growth and the successful rescheduling and reduction of Poland's foreign debt, followed by investment grade ratings from the main credit rating agencies, has increased Poland's attraction to foreign investors. With inflows exceeding $2bn a year accumulated foreign investment over the past six years is now approaching the $10bn attracted by Hungary, hitherto far and way the most successful recipient of foreign capital.

Among recent newcomers are General Motors, which is investing more than DM450m in a green field car assembly plant in Silesia, and South Korea's LG corporation, which has announced plans to invest $700m over the next five years. In the banking sector, Citibank has built on its successful early entry by turning Warsaw into its regional banking hub while latecomer Bank of America has just announced plans to set up a venture capital bank. It will take minority financial stakes in small- and medium-sized unquoted companies and help bring them to the Warsaw Stock Exchange. The market capitalisation of the WSE has risen to $7bn on the back of strong rally in share prices this year.

Despite the strong performance of the Polish economy over the past few years, however, there are signs of growing strain within the reformed communist Democratic Left Alliance (SLD) and the peasant party (PSL) coalition government. Tough political decisions are unlikely to be taken before general electione next autumn where the government parties face a rising challenge from the anti-communist right and populist opposition parties.

This means that badly needed reforms, euch as shifting the expensive social security and pension system to a funded basis and cutting the bloated coal industry are likely to be delayed, increasing the eventual cost and difficulty.

"The task facing any Polish government is to speed up privatisation and restructure the hard core of the post-communist economy and the social security system. This is also the minimum pre-condition for EU membership," says Janusz Lewandowski, a former privatisation minister. "Issues like fighting corruption and building a social security system which channels savings into institutional investors such as pension and other investment funds are second generation transition problems. They have to be solved if the transition to a market-based democracy is to be completed," he adds. Poland has moved a long way in this direction over the last seven years. But much remains to be done.

■ **Russia:** by Chrystia Freeland

Boris Yeltsin greets Prime Minister Viktor Chernomyrdin. The president's election victory marked an important milestone for Russia

Humble 'normalno' heads list of dreams

Russians rich and poor merely want to live in a western nation like any other

Ranging from the drippingly opulent bankers' offices of Moscow to crumbling apartment blocks in Siberia, Russians across the country and up and down the social ladder are likely to sum up their aspiratioos for their nation with a single word: "normalno".

"Normalno" shares a literal meaning with "normal", its English language cousin, but in the Russian translation this homble adjective has today taken on a heavier burden. With their ubiquitous bopes to build a "normal" country, Russians have found a simple and automatic way to express their national rejection of the utopian Communist experiment which exacted a huge human toll for most of this century.

Instead, since the collapse of the Soviet Union five years ago, Russians have pared down their dreams to the more modest goal of building a country fit to be a "normal" member of the prosperous and democratic western community of nations.

For a nation whose only historical experience is of tsarist and communist rule, this self-consciously slimmed-dowo aim of creating normality has proved to be an almost revolutionary challenge. Since the beginning of the decade, becoming normal has required a dramatic shift from dictatorship to elections of almost dizzying frequency, and from central planning and a state monopoly on the means of production to a free market and private property.

Russian President Boris Yeltsin's remarkable electoral triumph over his Communist opponent in July – a victory which defied the regional trend and a falling standard of living at home – marked an important milestone in Russia's construction of a still fragile democratic edifice.

On the economic front, the summer of 1996 has also brought significant achievemeots in the effort to create "normal", western-style capitalism. The most important of these is the government'a success in halting one of the most abnormal characteristics of the economy in the aftermath of the disintegration of the Soviet Union.

Released from the iron grip of central planners, and fuelled by spendthrift government officials eager to prop up cronies in decaying state industries, Russian inflation in the first half of the 1990s hit giddy highs which paralysed the rest of the economy. In 1992, the annual inflation rate was a startling 2,318 per cent and last year it was still a walloping 131 per cent.

But this August, for the first time since the beginning of reforms, inflation actually fell by 0.2 per cent in response to the government's tough fiscal and monetary policies, pursued with remarkable fidelity despite the political strains of the spring-time presidential election campaign. The August low is the culmination of a steady downward trend, which has brought inflation in the first eight months of 1996 down to 16.1 per cent. According to Yevgeny Yasin, the minister of the economy, the government is on course for e 25 per cent annual rate of inflation this year.

After the failure of several attempts to lower inflation – which brought the country all of the pain of macro-economic stabilisation with none of the benefits – this year's success is being hailed as a decisive breakthrough.

"I think we have indubitably conquered inflation," said Pavel Zhukov, head of the macroeconomic forecasting department at the ministry of finance, but speaking in his capacity as an independent analyst. "The task which was our main one has been resolved and I think it has been resolved for ever. I am convinced we will never have high infletion again and I think inflation will get lower."

These triumphant tones, more often heard on the battlefield than in the exchequer, reflect the widespread belief in Moscow that runaway inflation was the biggest and most lethal of the dragons menacing Russia'e supine young market economy. Now that particular beast has been slain, most foreign and domestic analysts are confident that, with time, Russia will have the chance to grow into a 'normal' capitalist system.

Yet, the celebration has been somewhat dampened by mounting concerns that, despite, or perhaps even because of, Russia's surprisingly successful battle with inflation, economic growth could still be some way off.

Last year many western and domestic analysts had predicted that 1996 would be the pivotal year when the Russian economy would finally stop its painful downward spiral and perhaps even begin to move upwards. In a best case scenario, optimists predicted an increase in gross domestic product of as much as 6 per cent. But, in estimates announced this month, Mr Yasin predicted that the economy was likely to shrink by another 5 per cent this year.

Many observers say this poor performance should not come as a surprise, in view of the government's strict inflation-beating fiscal and monetary policies.

"You cannot stimulate growth with negative inflation. No country has ever done it and Russia will not be the miraculous exception," a western banker based in Moscow said. "Where is the growth going to come from? It just doesn't make sense."

The continued economic decline has also inspired sharper attacks from long-standing critics of the reigning economic team. Sergei Glaziev, the top economist at the increasingly powerful security council, warned that with its focus on bringing down inflation the government had come up with a perfect recipe for economic stagnation and called for higher investment in education and infrastructure.

In addition to the growing debate over how to stimulate economic growth, the government has targeted collapsing levels of tax collection as one of the biggest economic problems it intends to address over the next year. Many officials had predicted that reveoues, which have fallen to below 12 per cent of GDP, would bounce back after the presidential elections, but these hopes [illegible] out by August figures, which showed tax collection at 75 per cent of official projections.

Another, smaller viper the Kremlin is planning to conquer this year is the much feared crisis which many observers warn could convulse the country's fragile banking sector at any moment. To avert a financial melt-down, the central bank is hoping to carefully weed out the smaller, weaker banks while giving the industry and its biggest operators enough support to prevent a broader crisis of confidence.

An even bigger challenge, but one which political circumstance may put off for decades, is confronting the monopoly ownership and incestuous links between government and big business which are the legacy of Russia's fast and dirty privatisation programme.

In the long run, the increasingly oligarchic nature of the Russian economic and political system could prove to be one of the biggest barriers to vibrant development. Already, it is one of the reasons for devastatingly low levels of revenue collection because Russia's biggest tax defaulters are also its wealthiest and best connected companies.

These are enormous issues, to be sure, but they are of a different order of magnitude from the truly revolutionary task Moscow confronted at the beginning of the decade, when it first set about moving from the planned economy to the market. Russia still faces huge problems, but in issues such as the trade-off between low inflation and growth or the struggle against powerful vested interests, it is beset by difficulties which are not unfamiliar to the leaders of developed capitalist economies.

Russia's problems are becoming "normalnye" and that must be the first step towards creating a country which, for the first time in its history, can proudly claim to be nothing more than normal.

Chrystia Freeland

PROFILE

Fierce defender of currency value

The great struggle within Russian economic reform has been to turn ideas embodied by individuals into practices entrenched by institutions.

Nowhere has this process been more successful than in the development of Russia's central bank as a credible bulwark against inflation.

Just two years ago, Soviet-era central bankers were denying that money creation fuelled inflation. The rouble crash on Black Tuesday, when Russia's currency lost one-fifth of its value, and a subsequent surge in consumer prices to 18 per cent a month were the dire result.

Mrs Tatyana Paramonova, appointed acting governor in the wake of the humiliation, did much to develop the bank's reputation as an institution committed to sound money and a strong rouble.

Sergei Dubinin, who has been the permanent governor since the end of last year, has successfully built on these earlier achievements, gathering around him a team of like-minded economists wedded to the tough monetary cause.

The reform-oriented Mr Sergei Aleksashenko has provided much intellectual ballast as the deputy governor, while Andrei Kazmin, head of Sberbank, the state savings bank, has also proved an invaluable ally.

With a bushy beard and jolly demeanour, the 45-year-old Mr Dubinin hardly conforms to the image of a modern central banker as an ascetic technocrat. But his fierce adherence to anti-inflationary policies and determination to defend the value of the currency could have been taken out of the Bundesbank's bible. The result has been a sharp reduction in inflation – with prices actually falling by 0.2 per cent in August – and a halt to the rouble's seemingly inexorable slide in real terms.

"I think we have clearly overcome hyper-inflation which has been the sickness of the Russian economy since the beginning of the 1990s," he says in an interview in his office in the central bank's elegant headquarters in the heart of historic Moscow. "This has been an enormous achievement which has been accomplished with great difficulty."

Mr Dubinin argues that the taming of inflation was one of the main reasons for the re-election of Mr Boris Yeltsin as Russian president in July.

But it is also an essential pre-condition for encouraging growth in an economy which official statistics, at least, suggest has been continually contracting since the start of the decade.

With a more predictable and credible macro-economic framework in place, Russia's bankers and business leaders should be abla to invest money in longer-term projects with far more confidence.

Russia's painful financial stabilisation may be just about to bear fruit – although there may first have to be further falls in interest rates.

When Mr Dubinin was appointed governor last year, many observers feared the mild-mannered former finance minister might not be strong enough to fight his corner in the run-up to the presidential elections.

And, indeed, at times during the election campaign it seemed as though Russia's tough monetary approach would be sacrificed on the altar of political expediency.

Mr Yeltsin toured the country making lavish spending promises, which, if fully implemented, would have bust the budget deficit. Parliament voted to transfer Rbs5,000bn of the bank's 1994 profits to the federal coffers, raising doubts about the central bank's independence.

But thanks to Mr Dubinin's single-mindedness, the backing of the International Monetary Fund, and some timely additional loans from Germany and France, Russia did not have to revert to the printing presses to cover its widening budget deficit. One senior western economist in Moscow says it was a remarkable achievement to keep inflation under control during the period.

"We have been extremely impressed by Dubinin's ability to hold things together during particularly tough times. The central bank has greatly enhanced its credibility under his guidance," he says.

The central bank's domestic critics allege it is now pursuing too tight a monetary policy, strangling the country's fragile banking sector and resulting in delayed payments to hundreds of thousands of federal employees and pensioners.

"There is also stability in the graveyard," has become a favourite refrain of opposition politicians.

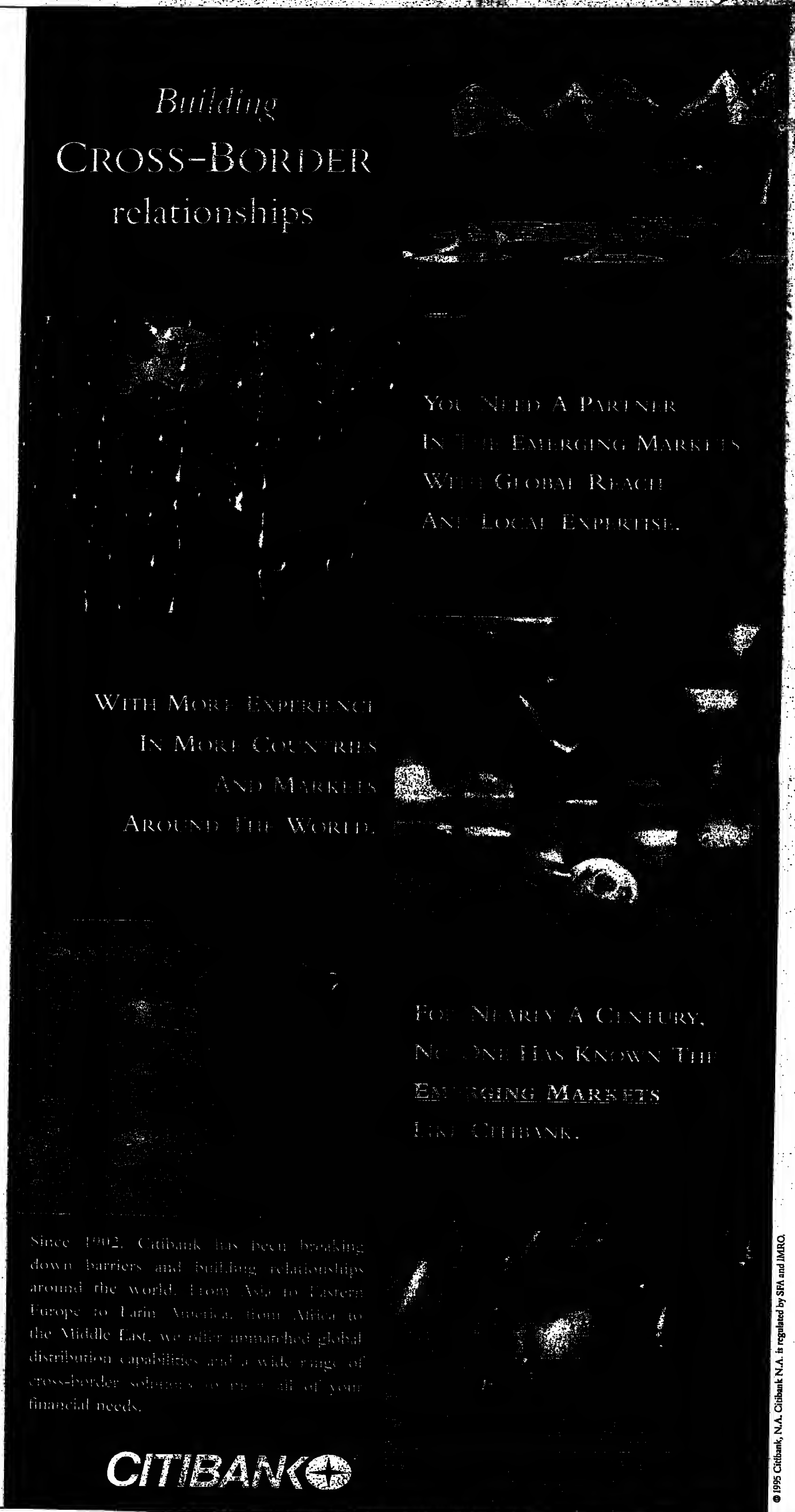
Mr Dubinin counters thet the seeming shortage of money in the economy stems from the irresponsibility of certain banks and the remaining technical difficulties of making money transfers – a problem he is now trying to address.

But the central bank is still a relatively immature institution and its lack of experience is still evident in many areas.

Its greatest challenges will be to help many of Russia's 2,150 banks manage their way out of their financial straits, to devise a longer term exchange rate policy, and to lower the government's exorbitant borrowing costs.

For central bank governors, the challenges may change but they never end.

John Thornhill



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■ **Australia:** by Richard Adams

Asian links harden

Australia remains one of the most sophisticated economies in the region

An Australian diplomat once said that the problem with inviting his country to an Asia-Europe summit was deciding on which side of the table its representatives should be seated.

Since the 1960s, it has been usual for Australian politicians to appear statesmanlike by proclaiming that the future of their country lies with Asia rather than with Europe.

Now that future seems to have arrived. Around 60 per cent of Australia's trade is with Asia, and 22 per cent of its population are not of British ancestry, though not all are Asian. In 1994-95, Japan and the seven Association of South-East Asian Nations countries (ASEAN) between them took 40 per cent of Australian exports. The European Union and the US together accounted for 18 per cent.

Australia can hold up its head alongside the success stories of its neighbouring emerging Asian economies, as still being one of the region's largest and most sophisticated economies. Australia's gross domestic product is almost twice that of Indonesia, the largest member of Asean, with a population 10 times larger than Australia's.

Ironically, tha drive towards trade and immigration links with southern Asia came during the post-1983 Labor governments, under Bob Hawke and Paul Keating. It was Labor in the post-war era that had robustly supported the "White Australia" immigration policies that stained Australia's image in the region for many years.

The Labor government lost office in March, just as the first Asia-Europe summit was being held in Bangkok. Australia was excluded from the summit, thanks to the opposition of Dr Mahathir Mohamad, Malaysia's prime minister. Dr Mahathir argued that while Australia might be geographically in the region, in heritage and culture it had little in common with Asia.

Yet Malaysia is one of Australia's best trade links in the region. Bilateral trade has been growing at 20 per cent a year, and Malaysia is about to overtake Britain as the tenth-largest market for Australian exports. Added to that are the 10,000 Malaysians studying at Australian colleges and universities. Malaysia and Australia also have military links through membership of the regional five-nation defence pact.

Malaysia first made its objections felt in 1993, when Dr Mahathir refused to attend the first Asia Pacific Economic Co-operation forum (APEC). APEC was promoted by Australia as an expression of open regionalism, and included the US, Australia and New Zealand, as well as Asian countries.

> The economy increasingly resembles the Asian model

Dr Mahathir favoured a limited group, made up of the members of Asean, plus China, Japan and South Korea as an East-Asian economic caucus. Unable to formalise that grouping, Dr Mahathir blocked Australia's attempt to join the Asian countries at the debut Asia-Europe summit.

Alex Downer, Australia's new foreign minister, wants a seat at the second summit in 1998, and has been encouraged by his first meetings with Dr Mahathir. Mr Downer argues that for Asia to sit down without Australia is like a sports team missing a crucial player.

As Australia's links with Asia strengthened, so its economy has increasingly resembled the Asian model. Since 1983, the Labor government has deregulated its financial markets, reformed the social security system, and turned it from one of the most protected countries into one of the most open.

Like its Asean neighbours, Australia suffers from large current-account deficits, this year estimated to be equivalent to 4.2 per cent of GDP. The concern is that such a high structural deficit cannot be sustained, with the country's net foreign liabilities amounting to more than 50 per cent of GDP.

As in the emerging Asian economies, Australia cannot finance its domestic investment requirements. The deficit is the result of the foreign capital needed to make up the shortfall.

Last year the Australian Reserve Bank, the central bank, said in its annual report that the current account problem exposed the nation's "chronic under-saving". It urged the government to deal with the problem: "Australians must not only produce more, we must, as well, save more."

Personal savings rates in Australia are very low – perhaps in part because of the generous welfare systems – and successive governments have been slow to tackle their own budget problems, running underlying deficits for many years.

But the Liberal-National coalition returned to power earlier this yaar was in a dilemma. In drawing up its first budget, it knew it had to confront the deficit. But it also had to honour its election pledges of an extra A$1.5bn in spending.

Peter Costello, the finance minister, juggled the two demands with proposed spending cuts of A$7.2bn over the next two years, designed to trim the government's deficit.

But that is unlikely to solve the continuing current account problem. Estimates for 1997 have the deficit ballooning to A$29bn, or 5.2 per cent of GDP, based on GDP growth of 3.8 per cent.

For many years Australia's investment shortfall has been met by capital inflows from Japan. Now other Asian countries, such as Singapore, Taiwan and South Korea, are joining in. That may solve Australia's geographical problem: it will be part of Asia when it is owned by Asia.

■ **New Zealand:** by Martin Wolf

Role model for the north

Changes since 1984 have set a benchmark against which others can judge their efforts

The transformation of New Zealand since 1984 is "one of the most notable episodes of liberalisation that history has to offer". This was the judgment of David Henderson, former head of the economics department at the Organisation for Economic Co-operation and Development.

Decades of underperformance was the mother and a foreign exchange crisis the midwife of this radicalism. Neither has been so potent in any other OECD country, which is why New Zealand's radicalism has been unique. Yet what this tiny country has done is a benchmark against which others can judge their efforts.

In the UK, for example, many still believe that low inflation and tight fiscal policies must reduce economic growth. Others, notably in Europe, argue that small countries can have no influence, let alone, control over their economic destinies. This is nonsense. Just go to New Zealand and look.

The programme of reform has been carried out under both Labour and National party governments since 1984. Under the Labour government, elected in 1984 and re-elected in 1987:

■ Import controls were phased out and tariffs were reduced unilaterally as a part of the Closer Economic Relations agreement for free trade with Australia;

■ Subsidies were abolished, notably to farming;

■ Wage and price controls were eliminated and wage bargaining freed from most government interference;

■ The trading activities of government departments were separated from policy-making and many were privatised;

■ Taxation was reformed, with the introduction of a value-added tax, the Goods and Services Tax;

■ The currency was floated, foreign exchange restrictions removed and tha financial markets liberalised;

■ The Reserve Bank of New Zealand was made independent of government in 1989 and set a target for annual inflation of 0-2 per cent.

Then, under tha National government elected in 1990 and re-elected in 1993:

■ The labour market was almost completely liberalised, with freedom for workers and employers to enter into employment contracts, as individuals or in groups;

■ Cuts were imposed on social welfare benefits;

■ The government was required to produce transparent accounts and adhere to normal accounting standards for the public finances.

As a result of these exceptionally coherent and comprehensive reforms, the world's view of the country has been transformed. This year's Global Competitiveness Report from the World Economic Forum in Davos rated New Zealand the world's third most competitive economy, after Singapore and Hong Kong. Though less entbusiastic, even the International Institute for Management Development of Lausanne, in its World Competitiveness Yearbook, rated it 11th just behind Germany.

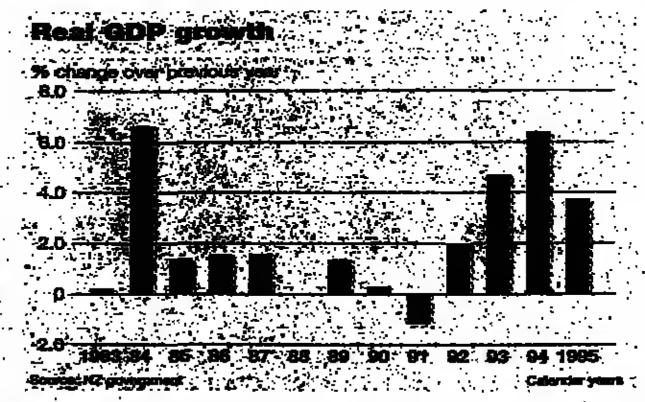
For a long time, however, it appeared that these radical reforms would not bear fruit. Between 1985 and 1992, the economy went into what Mr Donald Brash, the governor of the Reserve Bank of New Zealand, has described as "virtual hibernation".

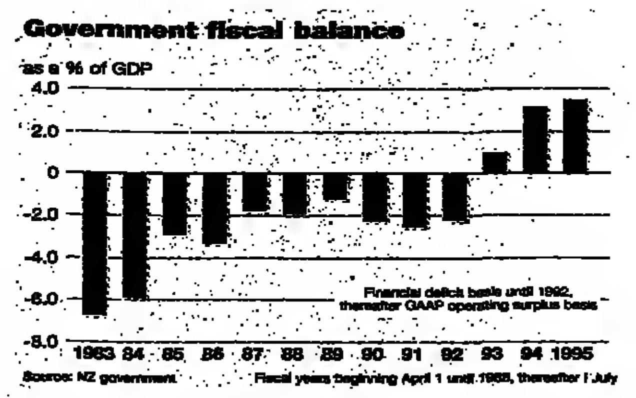
Then at last it took off.

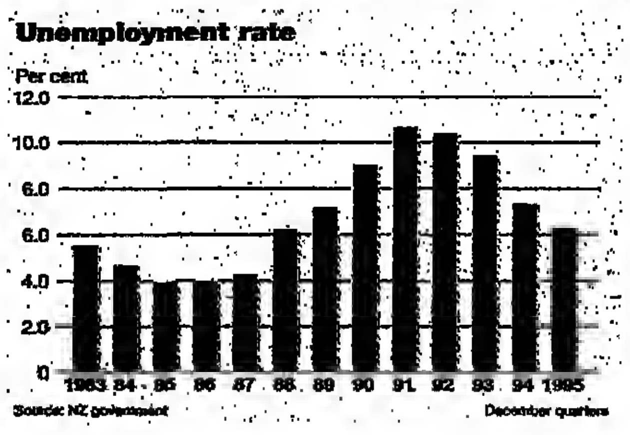
■ Between 1992 and 1995 the compound rata of economic growth was 3.7 per cent a year.

■ The unemployment rate fell from 11.9 per cent at its peak in 1992 to a low of 6.1 per cent, while employment rose 16 per cent from its low point in 1991 to the second quarter of 1996.

■ Yet average weekly earnings rose at less than 3 per cent a year and underlying annual inflation averaged 1.7 per cent between 1992 and 1995.







These improvements have been underpinned by an exceptional fiscal performance. The government has run fiscal surpluses for the past three years: that for the present financial year is expected to be 2.9 per cent of gross domestic product. Net public debt was estimated at 32.4 per cent of CDP at the end of June 1996, down from 47 per cent in the middle of 1991. This has permitted the government to plan for fiscal surpluses of about 3 per cent of CDP, while still cutting taxes.

The big question about the growth of the 1990s is whether it represents more than a few years of recovery after a long period of low and unstable growth. The answer is that the economy ought to be able to sustain growth at 3 to 4 per cent a year. This would he better than in the 1960s and 1970s, wben growtb was among the slowest of OECD members.

One reason continued growth looks plausible is the low rate of inflation. True, the Reserve Bank has been struggling to keep underlying inflation below the 2 per cent ceiling since the middle of last year. This has necessitated a tight monetary policy and a soaring exchange rate. In consequence, growth slowed sharply during 1995. But it should be possible to push inflation back down without losing forward momentum altogether.

Yet there are deeper problems. Savings rates are well below east Asian standards, for example. One reason for this must be the high level of borrowing for house purchase. The bousing market is also the principal generator of inflationary pressure.

In addition, the radicalism of the reforms has created a political backlash. This was shown in the referendum of 1993, when voters decided to punish politicians by switching from a first-past-the-post electoral system to proportional representation on German lines.

Reform has also imposed pain. Inequality bas increased, as has insecurity. But this was inevitable, at least to some degree, in moving from the unsustainable positions of the late 1970s and early 1980s, when skill differentials in pay were minimal and overmanning rife.

Moreover, in evaluating costs of reform, it is essential not to forget tbose of non-reform. At the end of Sir Robert Muldoon's period in office, New Zealand was on the verge of a default on its external debt and of an uncontrollahle domestic inflation, with a fiscal deficit of 9 per cent of GDP, even at a cyclical peak in economic activity. By 1984 the status quo was no longer an option.

Since many New Zealanders know their country was on the edge of disaster, a comprehensive reversal of the reforms seems inconceivable. If so, the country will continue to act as a fascinating test case of the radical application of orthodox economics.

Foreign direct investment: by Guy de Jonquières

Powerful promoter

Benefits include the transfer of technology as well as jobs and export growth

The 28 members of the Organisation for Economic Co-operation and Development have entered the final stage of negotiations on the world's first comprehensive and uniform set of rules for foreign direct investment (FDI).

They eim to present the result, the so-called multilateral agreement on investment, to ministers at their annual meeting in May. As well as removing barriers to FDI inflows into each of the countries, the agreement is intended to embody safeguards for foreign investors, backed by a binding disputes procedure.

The belief that such an accord is needed is a striking demonstration of the growing importance of FDI in the world economy, and of its consequences for government policies. Tbough tbe OECD agreement will, initially at least, apply only to industrialised countries, the underlying trends wbicb prompted it are increasingly being felt worldwide.

The total stock of FDI now exceeds $2,700bn – roughly double the 1988 level and equal to about 10 per cent of world economic output – and is continuing to rise rapidly. According to the United Nations Conference on Trade and Development, worldwide outflows last year reached $318bn, a 38 per cent increase over 1994.

The contribution of these inflows to host economies is also becoming increasingly significant. Last year, they represented 5.5 per cent of total gross fixed capital formation, twice the level in the first half of the 1980s.

Less easlly measurable, but at least as important, are tha side-benefits which FDI is often perceived to bring. As well as job creation, they include the transfer of technology and management expertise, exports and the raising of skill levels.

For these reasons, FDI is increasingly viewed as playing a critical role in economic development, and capturing it is an increasingly important priority of national policies.

Nowhere has that realisation bad a more striking impact than in developing countries, many of whicb are assiduously wooing the foreign investors and multinational companies which they vilified as pariahs only about 15 years ago.

Meanwhile, international institutions, including the World Bank and Unctad, are urging developing countries to edopt the kind of liberal, market-based economic strategies likely to create a congenial climate for inward investors. Some economists argue that FDI has now become at least as powerful as trade in promoting global economic integration. At the least, they increasingly advance in parallel and feed off eacb other.

One symptom is the high proportion of international trade, more than a third of the total, accounted for by intra-company transactions. The main factor behind this trend is the transnational spread of manufacturing and the development of global production networks.

The symbiotic relationship between trade and investment is underscored by the rapid expansion of international trade in services. Because many services are consumed et the point of delivery, cross-border expansion requires investment in foreign markets.

However, strong as these forces may be, it is easy to exaggerate the significance of FDI in the global economy. Its geographical impact is still uneven and is likely to remain so for some time. Furthermore, while clearly helping to nudge countries towards more liberal and outward-looking policies, its growth is also creating new policy challenges.

Overall, FDI remains a rich man's game. Despite the emergence of fast-growing economies, industrialised countries absorbed two thirds of worldwide inflows last year. This was a higher proportion – though of a much bigger total – than in 1982, just before the third world debt crisis.

Industrialised countries were also the source of most of the outflows. In spite of heavy investments by Hong Kong and Taiwan in China, and recent international expansion by South Korea's conglomerates, most developing countries have yet to develop a multinational investment infrastructure.

There appear to be several explanations for this situation. A sizeable proportion of western outflows last year was for mergers and acquisitions. This was particularly true of the US, which accounted for almost a third of global outflows. Large acquisition opportunities are much more common in developed than in developing economies. Most developing countries, meanwhile, are either too poor to generate outflows, or are growing so rapidly that they have no difficulty finding domestic investments into which to channel savings.

Moreover, the bulk of FDI into developing economies goes to only about 15 countries. Last year, China accounted for almost 40 per cent of such inflows. Though private capital flows into the developing world as a whole overtook official aid some years ago, they have done little to help most poor countries.

The composition of FDI flows into developing countries is also strongly biased towards manufacturing. In part, this is due to their obvious comparative advantages. However, it often reflects undeveloped or heavily protected services sectors.

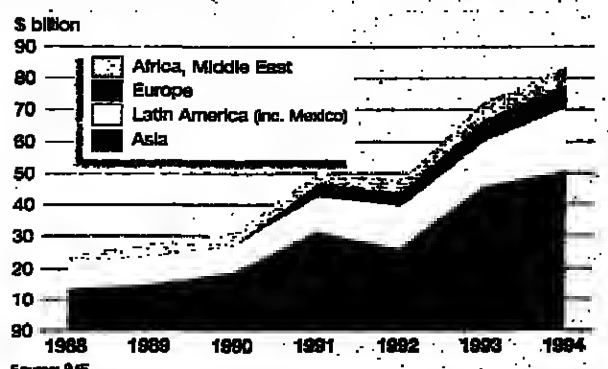
Barriers are particularly high in banking and financial services, notably in many fast-growing east Asian economies, which have been reluctant to deregulate financial markets and throw them open to competition. Malaysia, for instance, while laying out the welcome mat for foreign manufacturers, has for years refused to license new foreign commercial banks.

In telecommunications, the need to invest in modern networks has created greater opportunities for outsiders, though many developing countries still impose ownership limits on foreign investors.

The persistence of such barriers has increasingly proved a stumbling block to efforts in the World Trade Organisation to liberalise trade in services. The US has declined to participate in an agreement on financial services, and balked at a deal in telecommunications, on the grounds that not enough developing countries were ready to relax curbs on foreign ownership.

It is uncertain how much the planned OECD agreement will do to improve the situation – and it could make it worse politically. OECD members say developing countries would be welcome to subscribe to the accord, but in practice few are expected to do so.

FDI inflows in the non-OECD area



Source: IMF

Latin America: by Stephen Fidler

Back on track for growth

A tightening of international liquidity could present problems for the region

Latin America has recovered from its tequila hangover more rapidly than seemed possible a year ago. After last year's anaemic growth performance in the region, following the Mexican financial crisis, forecasters have ratcheted up their growth predictions for 1996 and 1997.

According to a survey in August of 60 forecasters by the London-based Consensus Economics, Latin American growth should rise to 3 per cent this year and 4.3 per cent next, from 0.7 per cent last year.

Mexico is expected to grow at 3.5 per cent in 1996 and 4.5 per cent in 1997, after its 1995 GDP decline of 7 per cent; Brazil at 2.7 per cent and 4.3 per cent over the next two years, after reaching a figure of 4.1 per cent last year; and Argentina at 3.1 per cent and 4.6 per cent after contracting by 4.4 per cent last year.

Forecasters believe that Chile, the region's fastest growing economy last year with growth of 8.5 per cent, will remain in that position at least until the end of 1997, growing at 7 per cent this year and 5.5 per cent next year.

Some caution may, however, be due. Expectations that the region's growth would accelerate were widespread in 1994 before the outlook changed for the worse after the disastrous devaluation of the Mexican peso.

Furthermore, growth has not been fast enough to keep poverty from growing. "The slow recovery of the regional economies is troublesome for a number of economic, social and political reasons," said Shahid Javed Burki and Sebastian Edwards in a World Bank publication. It is generating disillusion with reform, and encouraging reform sceptics who "do not have a coherent plan and tend to offer an assortment of mutually inconsistent policies with an unmistakeable populist flavour".

The economies worst hit by the crisis, Mexico and Argentina, recovered in 1996 – but in the context of low international interest rates and plentiful international liquidity. According to the UN Economic Commission for Latin America and the Caribbean, private capital flows to the region this year should approach $50bn, close to the record levels of the early 1990s, half of which will be in the form of direct investment.

Such an environment has allowed Mexico to refinance an important portion of its foreign debt coming due in the next two years – including all but $3.5bn of the money lent by the US government as part of an international rescue package – and has eased pressure on the Argentine economy and others in the region.

A tightening of international liquidity, the first signal for which could appear at any time through a rise in US interest rates, could create a more difficult financing environment.

According to Derek Hargreaves of JP Morgan in New York: "The last time [the Federal Reserve] began to tighten in February 1994, emerging markets fell out of bed. This time events appear set to play very differently."

This, he says, is because important barometers such as the Mexican peso have weakened already in anticipation; the US bond market looks less vulnerable and is much less leveraged than in early 1994 – as are most emerging markets; emerging markets yields are much higher relative to US yields; and higher US rates should be offset by lower interest rates in Japan and Europe.

However, he adds: "This is not to say that a Fed move will be a total non-event for emerging markets, especially as the likely ultimate size of the move – 100 basis points over the next nine months – is greater than the market currently expects. More important will be shifts in the perceptions of local economic performance."

Investor perceptions of Mexico have this year improved significantly. The recovery from recession has gone as well as the government could realistically have hoped, due in large part to a surprisingly strong export performance and helped by oil price increases. Exports rose by more than 30 per cent in 1995 to $79.5bn and grew by a further 20 per cent in the first half of 1996.

However, if Mexico favourably surprised the financial markets, Argentina disappointed them – although official flgurea have suggested signs of a stronger recovery. The arrangement by the central bank of $5bn of standby financa from international banks in case of a run on the banking system also boosted confidence.

> Growth has not been fast enough to stop the rise in poverty

Without the mechanism of currency devaluation at its disposal – the so-called convertibility plan ties the Argentine peso to the dollar and means the monetary base must be fully backed by international reserves – the government cannot rely on a rapid Mexican-styls export-led recovery. The ebort-term outlook for the economy is thus heavily dependent on capital inflows.

Austerity and racord unemployment bave contributed to a sharp fall in the popularity of Prasidant Carlos Menem, and the sacking in late July of economy minister, Domingo Cavallo. Although Mr Cavallo was replaced by a man viewed as equally committed to the convertibility plan, tha former central bank president, Roque Farnandez, some observers doubted Mr Farnandez's ability to manoenvre in the political system.

One of his immediate problems has been to deal with Argentina's budget deficit, this year expected to top $5bn, double the $2.5bn target initially agreed with tha International Monetary Fund. While the IMF may tolerate this in 1996, next year it is likely to insist on sharply reducing the deficit to some $3bn, necessitating further tough action from the government.

Brazil's budget deficit is also giving rise to continuing concern and is seen as a threat to tbe government's counter-inflation plan. In the year to June, the public sector reported an operating deficit of 5.6 per cent of GDP, compared with 4.9 per cent last December. This year'e deficit is expected at around 4 per cent of GDP, more than double tbe deficit target of 2.5 per cent.

According to Mr Burki and Mr Edwards of the World Bank, the size of last year's deficit wae "scary", and their concern about the growth of the government's domeetic dabt burden was echoed by the IMF director of fiscal affairs, Vitor Tanzi, this month.

President Fernando Cardoso's government has been unable to secure constitutional reforms that would provide long-term stability to the budget, which means that the public finances will remain e source of investor concern. Some observers see the president as being further weakened if his supporters do badly in October'e municipal elections.

Brazil has more flexibility at its disposal in economic policy than did Argentina and Mexico until December 1994, and is able to use discretion in managing tbe exchange rate. Still, economists in Brazil are closely watching what is happening in Argentina and vice versa. Some economists believe that if their fiscal imbalances are reduced tbrougb faster growth, their current account deficits could well grow disturbingly quickly.

According to Mr Nightingale of Latinvest: "The finance ministries of the two countries have to contend with comparable problems in regard to their fiscal and external imbalances. Both know that it is difficult to implement policies that tend to improve both: those that ameliorate the one tend to exacerbate the other."

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■ **Capital Inflows:** by Graham Bowley

Prospects brighten

Developing countries now stand a better chance of attracting capital

The prospect for an increase in international capital flows into the developing world is a bright one.

The pool of capital offered by private international securities markets, official financing, and private foreign direct investment should satisfy in large part the thirst for investment from the fast-growing developing countries.

Meanwhile, reform of the way governments and multilateral institutions treat the very poor nations is helping to ensure that these countries receive more public money and stand a better chance of attracting private sector capital in the future.

Several important developments have occurred in the area of official financing for developing countries in recent years. Perhaps the most important was the agreement in December 1994 – and subsequent implementation for selected countries – of the so-called "Naples terms" for low-income countries by Paris Club creditors.

This agreement which allows up to 67 per cent debt relief for selected poor countries has enabled many poor states to finally resolve their outstanding debt problems and prepare for a re-entry into the world financial community and, potentially, the world's capital markets.

One important initiative being debated in the international arena at present is a plan to raise the 67 per cent limit allowed under the Naples terms to about 90 per cent for selected countries, although not all debt is eligible for relief.

A second important development has been the increasing focus on the issue of multilateral debt.

Governments have come to recognise more clearly the burden placed on countries by the debt they owe to institutions such as the World Bank and the International Monetary Fund.

There are proposals to alleviate a large part of the burden of this multilateral debt. The World Bank's proposed Trust Fund and the plan to sell off a proportion of the IMF's gold reserves would be used to finance this objective.

Such initiatives would not only lessen the burden imposed on poor countries of large debt interest payments. But they would also greatly increase these countries' ability to attract new capital from the private financial markets.

A third important development in official financing was the support provided by official creditors in early 1995 to Mexico and the subsequent efforts by the international policy-making community to put in place safeguards to ensure that a financial crisis such as that in Mexico is less likely to happen again.

These safeguards – such as better financial supervision and data standards, larger emergency credit arrangements and recommendations to ensure a fairer deal for creditors in the event of a crisis – represent an attempt to set up a framework of checks and balances in which countries can operate without government interference and more effectively attract sustainable investment flows.

On the securities front, in spite of the world bond market reversal of 1994, the Mexican crisis of late 1994 and the turbulence in financial markets at the beginning of this year, "net issuance of international securities by borrowers in developing countries has been highly resilient", according to the Bank for International Settlements. These events had "no more than a temporary and localised influence on issuance," the BIS said.

The flow of capital via securities into the developing world even managed to withstand the sharp rise in US long-term interest rates at the beginning of this year.

Rises in US interest rates have in the past been associated with a decline in investment flows into developing countries as investors are typically attracted back to higher yielding and more credit-worthy US assets. But this time round, the flows were sustained. As a result, securities issued by developing countries had already by the end of the first quarter of this year exceeded the previous record issuance in 1994.

The optimism about rising capital flows into the developing world extends to foreign direct investment.

The share of worldwide foreign direct investment inflows going into countries outside the OECD area has been increasing since the late 1980s. However, its share still remains below that achieved in 1982 before the third world debt crisis and the recessions that followed it in many debtor countries.

However, since 1985 once the effect of the debt crisis had diminished, flows into developing countries increased every year to reach about $80bn in 1994, according to the OECD.

Deregulation, privatisation and liberalisation including the dismantling of trade barriers in these countries have been some of the factors behind this growth. They have created an environment more condusive to inward investment.

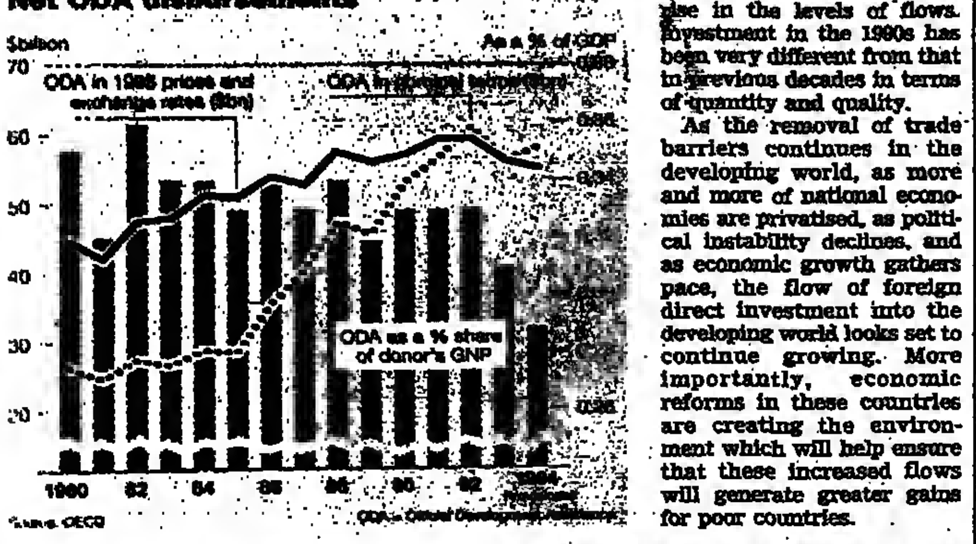
But another significant factor has been the rapid economic growth in many of the developing countries. As their economies have grown, the incentive for foreign companies to locate in these growing consumer markets has increased.

In the past, the absence of suitable domestic economic policies meant that the benefits of much of the investment which did flow into many poor countries were diluted.

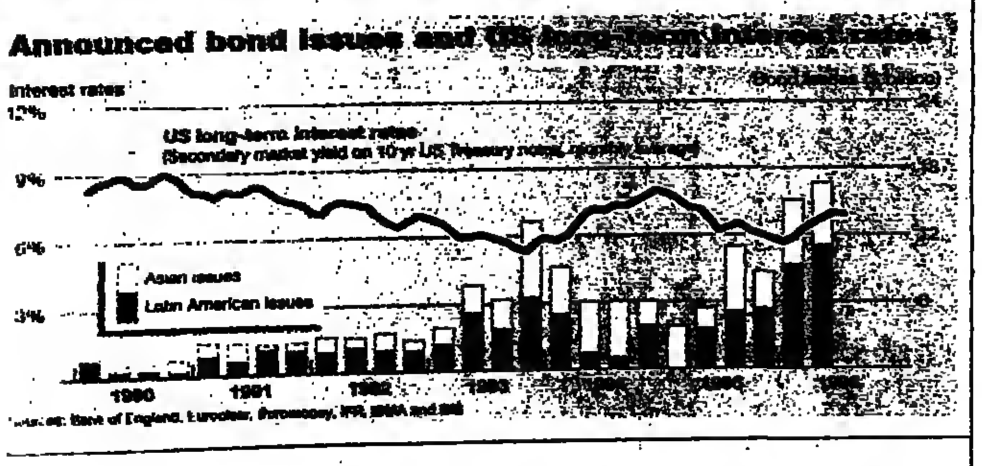
However, the past few years, according to the OECD, have been marked by a sea change in attitudes towards inward investment, as well as a corresponding rise in the levels of flows. Investment in the 1990s has been very different from that in previous decades in terms of quantity and quality.

As the removal of trade barriers continues in the developing world, as more and more of national economies are privatised, as political instability declines, and as economic growth gathers pace, the flow of foreign direct investment into the developing world looks set to continue growing. More importantly, economic reforms in these countries are creating the environment which will help ensure that these increased flows will generate greater gains for poor countries.

Net ODA disbursements



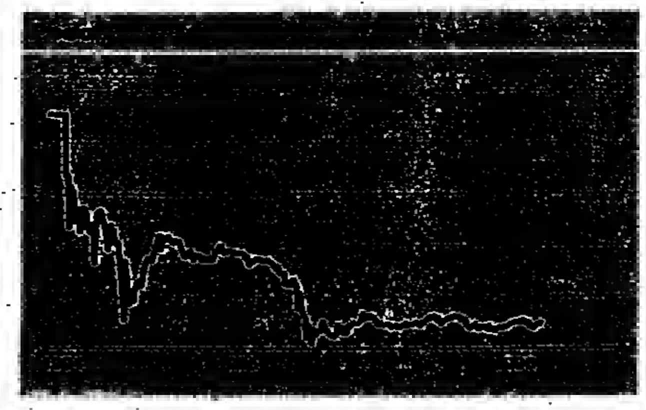
Announced bond issues



■ **Mexico:** by Leslie Crawford

Turnround a welcome surprise

The strength of exports has cushioned what might have been a brutal recession



Mexico is recovering from last year's financial crisis at a faster pace than either government or business leaders had hoped was possible.

The economy is forecast to grow by 3.5 per cent this year and by up to 4.5 per cent in 1997, at the end of which Mexico will have clawed back almost all the production lost in 1995, when gross domestic product contracted by 7 per cent in the worst recession of the past 60 years.

While the speed of the turnround has come as a welcome surprise, the recovery is still largely confined to the export sector, a highly concentrated corner of the economy where fewer than 600 companies account for four-fifths of Mexico's foreign trade.

A broader recovery remains constrained by the loss of employment and contraction in real wages, which have lost nearly a quarter of their purchasing power since the onset of the financial crisis in December 1994.

The banking system remains fragile, and there is no sign yet that lending to Mexico's credit-starved corporations has resumed.

The squeeze on wages, and the collapse of the financial sector, mean that exports will continue to drive economic growth.

"The strength of the export sector has cushioned what would otherwise have been a brutal recession," says Paulo Leme, chief economist at Goldman Sachs in New York. Exports were already growing at a fast rate before the devaluation of the peso in December 1994 gave them a further boost. With the collapse in domestic demand, most manufacturers sought foreign markets for the products they could no longer sell at home. As a result, exports now account for almost one third of GDP, and are expected to earn more than $95bn this year.

A favourable external environment has also helped fast-forward the recovery.

Mexican exports would not be growing at a rate of 20 per cent this year without the demand generated by a strong US economy.

Higher than expected oil prices will also boost Mexico's fiscal revenues by an extra $2bn this year, a sum Guillermo Ortiz, finance minister, plans to spend on public works to broaden the economic recovery.

In addition, flush international capital markets have allowed Mexico to borrow more than $12.3bn to retire part of the expensive emergency credits extended by the US Treasury last year, when Mexico was on the brink of default.

Inside Mexico, Mr Ortiz's orthodox policy mix of tight credit and fiscal austerity has allowed the financial markets to recover a large measure of stability after their roller-coaster behaviour in 1995. The floating exchange rate has even appreciated slightly during 1996, a factor which has helped the central bank lower inflation to an annualised rate of 30 per cent in August, against a peak of 52 per cent in February.

Mexico's financial debacle has changed the face of the economy in other important ways. The most salient change has occurred in the opening of the domestic banking sector to foreign investment. Deliberately excluded from the privatisation of the banking system four years ago, foreign banks are now being actively courted by Mexican bankers whose capital has been wiped out by bad debts. "I would not be surprised if foreign banks owned 50 per cent of the Mexican banking system in about five years," says Ricardo Guajardo, chief executive of Bancomer, Mexico's second largest bank. Earlier this year, Canada's Bank of Montreal acquired a 16 per cent stake in Bancomer for $500m.

Other corporations are following the lead set by Mexico's bankers out of necessity rather than choice: domestic credit has been scarce since the peso devaluation, while the international capital markets have shown little appetite for new Mexican corporate debt or equity offerings.

"The financial crisis has forced a further opening of the Mexican economy," says Rogelio Ramírez de la O, en economist with Ecanal consultants in Mexico City. "Mexican companies are beginning to accept foreign partners. Often, it is the only way in which they can expand their businesses."

In addition to Mexico's financial gronps, the telecommunications sector has seen a rash of joint ventures ahead of the liberalisation of the long-distance market in January next year. In the food industry, Maseca, the country's leading maize flour producer for tortillas, Mexico's staple food, recently sold a 22 per cent stake in its operations to Archer Daniels of the US. Mexican companies are also seeking foreign partners to bid for the forthcoming break-up and privatisation of the national railway network, and in the construction of new power plants.

What is missing to broaden the recovery, many economists believe, is the commissioning of more public works. These have been promised since late 1995, but have "shone by their absence", according to the cement and construction industries.

The National Chamber of Industry and Construction estimates 170,000 building jobs have been lost since the onset of the recession. It says only half of Mexico's 14,000 construction companies have work at present.

After two years of austerity, the government is understood to be planning a small fiscal deficit in 1997 to accommodate the costs of social security reforms end to quicken the pace of the recovery.

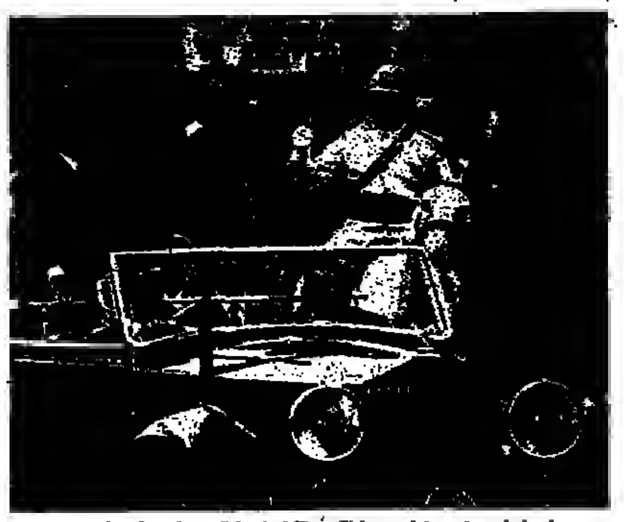
Finance officials say the central bank will aim to lower inflation to around 12 per cent next year, while the current account deficit could again widen to $7bn, or 2.5 per cent of GDP, to allow for more imports and a recovery in domestic demand. Mexico registered a small current account surplus of $523m in the first half of 1996, in a dramatic contrast to its pre-devaluation current account deficit of $14.1bn in the first half of 1994.

Few Mexicans, however, will experience the fruits of the economic turnaround. Finance minister Ortiz says consumption will not recover its pre-devaluation level until 1998 at the earliest. Real wages, meanwhile, are forecast to contract further in 1997, as the government is expected to set the minimum wage below the projected increase in inflation, and most private sector companies will follow suit.

■ **Brazil:** by Jonathan Wheatley

Cardoso's big gamble

The largest factor affecting investor confidence will be domestic political developments



President Cardoso's political skills will be put to a tough test

In the next few months, President *Fernando Henrique* Cardoso's considerable political skills are likely to be put to their toughest test.

The Plano Real, devised by Mr Cardoso in his previous job as finance minister, has cut monthly inflation from 50 per cent in June 1994 to less than 1 per cent today and boosted the average earnings of Brazilians by a quarter. Bnt his achievements will remain insecure until he tackles the underlying problem of fiscal imbalance.

To do so, the president must persuade three fifths of congressmen to vote for politically sensitive constitutional changes needed to prune Brazil's bloated public bureaucracies and to give tha federal government greater control over spending.

Congress, lacking in party discipline and beset by regional and sectoral interests, has so far been reluctant to oblige. Now, as the political capital of his success in beating inflation diminishes, Mr Cardoso is *seeking to strengthen his* mandate by securing anotber constitntional change that would allow him to run for e second term. It is a gamble he can ill afford to lose.

"If the president loses the battle over re-election his cbances of getting bis reforms through congress will be much weaker," says Dany Rappaport, chief economist at Sao Paulo consultant firm MCM. "Even if he wins, it may not strengthen his mandate enough."

It would be hard to overstate the importance of the reforms. The government'a success in fighting inflation has been based largely on tight monetary polices, very high interest rates and greater consumer access to cheap imports. This success will ba jeopardised if the government does not tackle inflation's underlying causes by bringing public spending under control.

The government's difficulty here is that its ability to direct expenditure is severely curtailed by the constitution. Almost all *spending is earmarked for* such items as social security payments, public sector salaries and transfers to state and municipal governments.

The Real Plan gave the government limited room for manoeuvre by creating the Fiscal Stabilisation Fund, e temporary instrument that passes control over some spending beck to the centre. But this is et best a stopgap measure.

Meanwhile, Brazil's debt continues to grow. Failure to control spending is exacerbated by high interest rates, needed to restrain consumption and to attract capital inflows to finance the current account deficit. Brazil's success in ettracting foreign capital – aided by the sophistication of its financial markets – has helped to keep the Real Plan on course. Foreign reserves now stand at more than US$60bn. But to prevent inflationary expansion of the money supply, the government must mop up capital inflows by issuing domestic bonds. Internal debt in securities *has risen as a result, from* 16 per cent of domestic product in December 1995 to 21 per cent in June this year.

A warning about Brazil's growing debt problem was sounded earlier this month by the IMF's director of fiscal affairs, Vitor Tanzi. *Speaking* in Brasilie at a seminar on public finances, be described Brazil's situation as "worrisome" and said it should be dealt with as soon as possible. And although the size of total federal debt in relation to GDP, at about 34 per cent, was much smaller than in many developed countries, Brazil's high interest rates meant that the burden was growing quickly.

Government officials say the situation is under control, arguing that a primary budget *surplus* of 1.5 per cent of GDP would be enough to avoid unmanageable growth in debt, a modest improvement on the 1 per cent surplus predicted for this year.

The question everyone would like answered is, how long has the government got before its fiscal problems begin to erode the Plano Real's success? As long as it takes, say some. Luis Cesar Fernandez, president of Banco Pactual, an investment bank, says the government can go on extending the Fiscal Stabilisation Fund almost ad infinitum. Others argue that the transparency of Brazil's pnblic accounts and its carefully managed floating exchange rate make a Mexico-style calamity unlikely.

However, Brazil's ebility to sell domestic debt and attract foreign capital *depends on continuing* investor confidence. As IBCA, a British rating agency, commented in a recent report, short-term flowe "are extremely sensitive to any rise in international interest rates, renewed regional shocks and/or a sudden deterioration in the domestic economic environment... The risk of e wholesale sell-off of Brazilian assets and a rapid rundown of reserves remains very high."

Mr Rappaport at MCM is confident that, for the next few months et least, there is no prospect of a withdrawal of capital by investors from developed countries. But he warns that instability in Argentina could lead to an outflow of regional funds that would set alarm bells ringing.

"Argentina is heading for serious difficulties in maintaining its convertibility plan, and that will create a lot of regional pressure," he says. "The knock-on effect on Brazil would be as damaging as the Mexican crisis."

If the economy remains free from external shocks, the biggest factor affecting investor confidence will be political developmants et home. The ordinarily sluggish pace of reform has slowed to e virtual standstill in recent months aa congressmen have concentrated their attentions on next month'a municipal elections. The success or failure of government candidates will play a big part in determining the outcome of the subsequent debate on presidential reelection.

Mauro Schneider, an economist et Dutch bank ING in Sao Paulo, says the re-election issue is bound to dilute the government's reforms. "If the government is to raise enough support in congress to win the re-election debate, it will have to give something in return," he says.

Political horse-trading is one aspect of Brazil's past that will not change quickly. Mr Cardoso has shown himself to be an accomplished negotiator and has secured significant advances in the economic arena. The odds are that he will retain enough public support in the coming months to persuade congress to let him run for another term. If that happens, the Plano Real could yet be completed in what one minister habitually refers to as the first Cardoso government.

■ **Global equity issuance:** by Richard Lapper

Demands for capital grow

Investors are flush with cash and equity issues are being snapped up

A combination of economic liberalisation, privatisation and far-reaching technological change is increasing the demand for equity capital from businesses around the world. *With stock markets* buoyant, despite the recent dip in the US, interest rates historically low and institutional investors flush with cash to invest, many of the issues are being snapped up.

International issuance of equity capital is set to amount to more than $65bn this year and now represents one of the most rapidly growing sectors of global capital markets.

In the first eight months of 1996, the volume of capital raised in new issues reached $43.37bn, compared to $45.61bn for the whole of 1995, according to figures from Capital Data in London. Despite a dip in activity in North America, issuance during the summer has been well ahead of last year's levels with some $11.4bn raised during July and August compared to $8.6bn for the whole of the third quarter in 1995. Moreover, investment bankers expect the volume of issuance to surge in the fourth quarter of the year. According to estimates by Salomon Brothers, volume could top $25bn between October and December.

Corporate restructuring, especially in sectors where deregulation or the application of new technologies are increasing competitive pressures, is one of the reasons for the growth in activity. Privatisation, however, especially in Europe, where governments are under pressure to raise cash in order to reduce fiscal deficits ahead of monetary union, has been responsible for some of the biggest deals. European privatised companies raising capital so far this year include Assurances Generales de France (AGF), the French insurance company which raised $1.12bn in May, Portugal Telecom which raised just under $1bn in a secondary global offering in June, and Repsol of Spain, the oil, gas and chemicals group, which raised more than $1bn in the first quarter. The UK government has raised more than £3.1bn with the sale of Railtrack and British Energy, while the sales of state-owned companies like DSM, the second largest Dutch chemicals group, have contributed to capital raising of more than $5bn by Dutch companies so far this year.

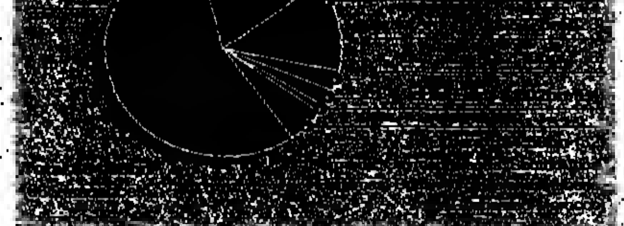
Elsewhere, the Peruvian government raised more than $900m in Latin America's biggest deal for some two years when it sold a 23.6 per cent stake in Telefonica del Peru, the telecommunications company. All these deals could well be dwarfed by multibillion-dollar deals now in preparation.

In November, the German government is set to raise up to DM15bn when it launches an international primary offering for Deutsche Telekom (DT), Europe's biggest telecommunications company. The deal, which has been widely billed as the largest international equity issue, will lead to part privatisation of DT, with e second tranche of shares to be sold further diluting the state's stake before the end of the century.

Italy and France, which are also under Maastricht Treaty-related pressures to reduce public sector deficits, plan to sell more state-owned companies. The sale of shares in ENI, the *Italian* oil and gas concern, is expected to raise about $4bn in October this year, while France Telecom is expected to launch an issne in the first half of 1997.

These deals will be the most visible sell-offs in a European privatisation campaign tipped by Morgan Stanley, the US investment bank, to raise as much as $300bn by 2000. Morgan Stanley expect Portugal, Austria and Italy to be particularly active privatisers, estimating the capital that could be raised through sell-offs to be equivalent to 108.4 per cent of the Portuguese stock market, 41.7 per cent of the Austrian market and 19.8 per cent of the Italian market. Spain, Norway, Finland and France, as well as Sweden and Germany, are also planning further significant sales of public sector companies.

New demands for capital are also coming from the emerging markets, which lost access to international markets following the Mexican devaluation of December 1994. Latin American and Asian companies have been back in the markets, helping to explain a surge this year in issuance of depositary receipt programes (paper which trades in lieu of underlying shares and helps investors circumvent problems linked to settlement and custody in a number of markets).



According to the Bank of New York, 62 companies and 11 *governments* raised a total of $6.7bn in the first half of 1996. Overall, a total of 116 programmes have been established. Chinese companias have raised $608.3m in the second quarter, while Indian companies – which launched DR programmes with a vengeance in 1994 – are also back, raising more than $480m in July and August this year. As well as Telefonica in Peru, companies from Mexico, Argentina and Chile have all raised DR issues this year.

Investors are responding positively to new international equity issues, partially reflecting the buoyancy of the secondary markets. US institutional investors are continuing to switch their investments eway from domestic markets. European investors are now *beginning* to follow suit, with new German mutual funds, for example, turning to the equity markets.

In response, international banks have increased the ecale of the resources devoted to the international primary market, which has become one of the most profitable investment banking activities. Specialists in the sector are now among the stars of investment banking, transferring from one bank to another for salaries equal to those of sports and film stars.

But the extra competition for business has begun to drive down the margins enjoyed by banks and could eventually depress profitability. In Europe, fees for placing shares in an international equity *issue* range from 3 per cent of the amount raised in a secondary share issue up to as much as 4.5 per cent of the amount raised for an international primary offering, more than 50 per cent less than levels enjoyed by banks in the US.

■ **Industrialisation in developing countries:** by Tony Hawkins

Tigers leave rest standing

The gap between Asia and other developing regions in the world is widening

The changing map of world industry
Regional shares in global manufacturing production

	1970 (%)	1980 (%)	1990 (%)	1995 (%)	2005* (%)
Industrialised countries	88.0	82.8	84.2	80.3	71.0
Developing countries	12.0	17.2	15.8	19.7	29.0
Latin America	4.7	6.5	4.6	4.6	4.4
North Africa and west Asia	0.9	1.6	1.8	1.9	2.4
South Asia	1.2	1.3	1.3	1.5	1.7
East Asia including China	4.2	6.8	7.4	11.1	20.0
Sub-Saharan Africa†	0.6	0.5	0.3	0.3	0.3

* Baseline projection; † Excluding South Africa. Source: Unido Database

To date, at least, the search for a successful east Asian industrialisation role model readily transplantable to the world's least developed economies is proving elusive. Figures compiled by the United Nations Industrial Development Organisation (Unido) illustrate a widening gap between successive waves of remarkably successful Asian tigers and their less fortunate developing world counterparts in Latin America, but especially in sub-Saharan Africa.

In the last 25 years the share of the industrialised countries (including eastern Europe) in global manufacturing value added (MVA) has fallen to 80 per cent from 88 per cent in 1970, while developing countries, including China, have increased their market share from 12 per cent to almost 20 per cent. But almost all of that shift in manufacturing activity has occurred in east and south-east Asia, whose market share has more than doubled from just over 4 per cent in 1970 to an estimated 11.1 per cent in 1995.

After growing strongly in the 1970s, Latin America's share has stagnated, and whila there has been some growth in north Africa and the rest of Asia, sub-Saharan Africa's already tiny share (0.6 per cent in 1970) has halved. On Unido's baseline projections these trends will continue into the 21st century. East Asia's current share of 6 per cent (exclnding China) will come close to doubling over the next decade, reaching 10.7 per cent by 2005. China, too, will raise its *share* of global MVA to 9.3 per cent from 5 per cent last year, but eastern Europe, including the former Soviet Union will continue to lose ground, and Latin America and eub-Saharan Africa will continue to stagnate.

For industrialised countries, east Asia's seemingly inexorable industrial growth is both a threat and an opportunity.

The Asian tigers offer market opportunities not just for exports of goods and financial services, but also for foreign investment and for sourcing low-cost inputs. Simultaneously, Asian manufacturers pose e threat to commercial viability, as well as to real wages and employment.

For late-starter industrialising countries – especially those in Africa – the east Asians are e potential source of lower-cost manufactured goods than from their traditional suppliers in the European Union, a source of foreign investment (Taiwan and Malaysia are two of the leading foreign investors in South Africa today), an import threat to some of their fledgling industries, but above all, e role model to be replicated.

The conventional wisdom holds that as productivity and wages rise in east Asia, *so the global centre of gravity* will shift to other regions where semi-skilled labour is plentiful and cheap. That, after all, is the Asian flying geese pattern. As e newly industrialising country, like South Korea and more recently, Malayeia, runs *short of low cost surplus* labour, so it vacates the labour-intensive industry leaving the way open for Thailand, Vietnam or India to develop sweatshop-type screwdriver enterprises.

In a world of rapidly-changing industrial technology, this emphasis on low cost – invariably low-productivity – labour looks increasingly fragile. One obvious reason for this is the declining importance of direct labour costs in modern manufacturing and the concomitant increase in skills-intensities. There is a growing body of evidence to suggest that it is less the cost of labour that matters than its quality. If low-cost labour were the key determinant then many African countries would be attracting east Asian-style levels of foreign direct investmentr.

Then there is the fact thet industrial development is a moving target. What may have worked in Taiwan and South Korea 20 years ago is no longer necessarily relevant. Liberalisation, deregulation, and globalisation have changed the rules of the game. Certainly, recent trends in industrialisation suggest that countries will not make the transition to newly-industrialising country (NIC) status unless they attract significant inflows of *foreign direct investment*.

This consideration, in turn, raises doubts about the nature of industrial policy in the mid-1990s. Few contemporary foreign investors are happy with government intervention, however selective. But there are those who *insist* that the *east Asian* "miracle" was at least partly the consequence of well-conceived and cleverly co-ordinated government intervention, though the World Bank lobby (and others) argue thet sensible macroeconomic policies and efficient administration, underpinned by high savings and investment rates were responsible for the region's success.

Glven the diversity of strategies and experience in seven or eight countries over 30 years, this disagreement over the nature of east Asian industrial policy is understandable. It is also unfortunate, since it means that not only is thare no unique industrialisation role model for late-starters, but also there is some reputable support for the interventionist inclinations *in many* developing countries.

Thus in South Africa – a country where the ideological struggle bstween left-wing interventionists from the trade unions and elsewhere and those in government and business seeking to boost investment and employment – threa well-known economists and businessmen argue that Pretoria's industrial policy is being "undermined by the country's lurch into tariff cuts and the weakening of other protective devices for our nascent industries". The belief that protectionism and state intervention are good for jobs – and growth – dies hard.

The three South African interventionists see the "generation of a wider domestic market" as the base for anccessful industrialisation. But the strong links between trade liberalisation and economic growth suggest otherwise. Perhaps the most striking feature of growth by eecond-wave Asian Tigers – Indonesia, Malaysia and Thailand – is their success in making the transition from dependence on primary product exports in the 1960s and 70s to manufactured exports. In all three countries, the share of manufactured exports in total exports grew from 6 per cent or less in 1965 to 41 per cent (Indonesia), 61 per cent (Malaysia) and 77 per cent in Thailand by 1992. In Africa the share of manufactures in exports was less than 10 per cent in 1990.

Only two African countries – South Africa and Nigeria – have home markets worth more than $30bn and therefore, the suggestion that the domestic market is any kind of basis for meaningful industrialisation in Africa is clearly misplaced. The barrier to export-led growth in Africa and other developing regions is a combination of inappropriate policies, high transport costs and the yawning technology chasm that separates "best-practise" manufacturing in the Asian NICs with that of low-income countries elsewhere.

A new initiative to close the widening industrialisation gap will be launched next month when Unido unveils its Alliance for Africa's Industrialisation. The Alliance seeks to help African countries develop a strategy that will enable them to exploit the new industrial opportunities opening up in the wake of the Uruguay Round Agreements and the globalisation of world business. The overriding theme will be building capacity for Africa's industrialisation with a special focus on agro-industry, though other sectors will not be neglected.

■ **Global manufacturing:** by Stefan Wagstyl

Eyes on new frontiers

International companies are beginning to emerge from the developing world

The rapid globalisation of the world economy is bringing profound changes in manufacturing industry. Companies, which even 10 years ago felt secure inside national borders, are now facing ever-increasing international competition – and seeking salvation in the ever-growing opportunities offered by international markets.

The figores speak for themselves. While world economic output has grown in the mid-1990s at an everage annual rate of 3.7 per cent e year, trade has increased by more than 8 per cent, according to IMF data. Trade between industrialised countries and developing nations has grown even faster – at more than 11 per cent annually.

These flows are being cemented by a big jump in foreign investment in developing countries. The IMF estimates thet foreign direct investment in the developing world has soared from just US$18bn as recently as 1990 to $86bn last year and e forecast $91.2bn in 1996.

Behind these numbers lie the decisions of thousands of companies to seek business far beyond their frontiers, with manufacturing groups in the forefront. Manufacturers seek foreign trade and investment to increase sales and profits. First, they are trying to secure new markets, even in countries which a decade ago seemed to offer little prospect, including the former Soviet Union. Next, they are looking for low-cost sources of production, notably in east Asia. These twin motives are driving companies in industrialised nations to add ever more countries to their list of possible locations for trade and profit. In east Asia, for example, coastal China is no longer pioneering territory. The adventurous are looking inland to cities inclnding Wuhan, where some British companiea bave focusad their interests, and Chengdu.

In south east Asia, Thailand is well-trodden ground. The brave are in Vietnam. In Europe, Russia is regarded with e beady mix of excitement about its prospects and nervousness about the many possible pitfalls. By contrast, Poland and the Czech Republic are rapidly establishing themselves as routine destinations for those seeking trade and investments sites.

The sopbistication of goods made in the developing world is also rising. According to United Nations Conference on Trade and Development (Unctad), developlng countries' exports to the industrialised world (members of the Organisation for Economic Cooperation and Development) have seen the sharpest increases in bigh-skill goods, including semiconductors, computers, chemicals, aerospace equipment, and printing and publishing.

Such exports bave risen from below $10bn a year in the late 1970s to more than $40bn in 1992, according to the 1995 Unctad Trade and Development Report. Exports of medium-skill goods – including office equipment (exclnding computers), machinery and fabricated metal prodncts – have risen almost as fast, also to more than $40bn. However, exports of low-skill manufactured goods – including textiles, clothing and metals – rose modestly from more than $40bn to just under $60bn, over the same period.

A striking feature is the ecale of intra-group trade. Companies trading with their own subsidiaries and affiliates account for 40 per cent of world trade in industrial goods.

These developments place big strains on company management. Not only do they have to epread their resources around the globe, but they also have to build organisations which are able to respond ever more quickly to e wider range of external changes. It is not enough to have representatives, or factories in foreign countries, unless these units function effectively, which almost always means function quickly.

Many large groups are responding to this challenge with a combination of decentralised decision-making and the rapid reporting of such decisions and their results, especially financial results, to head office.

These policies are often called global localisation. However, the way they are carried out and their effectiveness vary greatly between companies.

Successful highly decentralised companies inclnde ABB, the Swiss-Swedish engineering combine, and Motorola, the US electronics group.

Bnt less decentralised groups have also been conspicuouely successful, among them General Electric, the US engineering group, and Toyota Motor, the Japanese car maker.

Large global companies are today drawn almost exclusively from western Europe, north America and Japan. But they will have to compete in future with companies emerging from the developing world. A few auch groups have long existed, including the South African mining combine Anglo American.

Among manufacturing-based groups from the developing world, South Korean chaebol – industrial groupings – are the most prominent, with well-established operations in the US and the European Union.

Taiwanese and Hong Kong companies are also beginning to make their mark.

The internationalisation of the large manufacturers of finished goods, including vehicles, electronic equipment and machinery, poses particular challenges for their suppliers. Often, the finished goods maker goes to a developing country in search of cheaper component supplies, threatening the business of the domestic component maker. The obvious route is to follow the big customer overseas. But smaller companies sometimes balk at the costs and risks of establishing themselves overseas. Joint ventures and co-operation agreements with similar-sized suppliers in the foreign country sometimes provide a solution.

There are important differences between industries in the degree of globalisation. For some the cost of transport is a powerful restraint on truly international trade. For example, while steel goods are shipped around the world, from Japan to the EU, for example, and vice versa, steel itself is mainly e regionally-traded prodnct.

In other industries, proximity to the market is crucial. For example, textiles were among the earliest manufactures to be traded internationally. But domestic manufacturers making high-fashion items have a role even in countries with high labour costs because of the speed with which they can reach markets. So globalisation is not a panacee for all manufacturers. The way it is combined with a company's specific attributes is what matters.

Trade in manufactures of OECD countries with developing countries*

Source: UNCTAD * Including China

■ Sub-Saharan Africa: by Tony Hawkins

Silver lining's dark tinge

Inability to win foreign capital is slowing the growth of sub-Saharan Africa

Predictions that the sub-Saharan economy is coming right at long last are nothing new. The World Bank, for one, has made something of a habit of seeing light at the end of the African development tunnel, only to be forced repeatedly to revise its overly optimistic assessments.

The Bank's hopes that the increased adoption of structural adjustment reform programmes underpinned by aid inflows averaging more than $18bn annually (36 per cent of the global total) between 1991 and 1994 would turn the regional economy around were not realised. In the decade since 1986, sub-Saharan GDP has grown at a miserly 1.7 per cent annually while real per capita incomes have fallen 1.2 per cent a year.

In its latest baseline forecast (1996-2005) the Bank again sees a silver lining. GDP growth will more than double to 3.8 per cent a year, inflation will slow to 8 per cent (from 9.6 per cent) while export growth almost doubled to 4.6 per cent a year from 2.6 per cent. For the first time since the 1970s, the region will experience rising real living standards, though – a fact the Bank overlooks – the sub-Saharan economy will be in recovery, and not breaking fresh ground.

This optimism has its roots in the World Bank's belief that improved policy implementation will be "the key determining factor in the longer-term outlook". In its 1996 report on Global Economic Prospects and the Developing Countries, the Bank sees progress in exchange rate and trade liberalisation allied with more modest gains in fiscal policy and public and financial sector reform.

That Africa's policy environment has improved dramatically in recent years is not disputed. The worry is that policy implementation continues to be erratic and that the reform dividend has been both niggardly and slow in coming. Fifteen years and more into the adoption of structural adjustment programmes, there is still not a single mainland economy that can be said to have graduated from the IMF/World Bank intensive care ward. Ghana seemed to be on the brink of doing so in 1992, before fiscal policy went amiss in the run-up to the elections and Accra was forced back into the hands of the IMF in 1995.

The regional success stories are atypical, small, economies. Mauritius, with its highly successful export processing zones, is now ranked by the World Bank as second only to Singapore in terms of integrating with the global economy. Botswana's diamonds-driven export-led success shows some signs of spilling over into broader industrial expansion, spearheaded by the export of partially-assembly Hyundai motor vehicles to South Africa.

These two and possibly other microeconomies – Seychelles, Swaziland and Lesotho – stand apart from the rest of the 47-odd states. Both Ghana and Uganda have staged impressive comebacks after decades of decline, but their recoveries have been aid- and commodity-driven – gold, coffee and cocoa. Neither is within shouting distance of attracting the kind of foreign direct investment (FDI) inflows needed to become an Asian-style tiger. Both have severe infrastructural problems as well as narrow export bases, while neither has a strong enough private sector to lift their economies on to a higher growth plane in the immediate future.

Southern Africa is seen as the region most likely to turn the corner in the latter half of the 1990s, partly on the strength of a strong upturn in South Africa itself, but also because Angola, Botswana, Mozambique, Zambia and Zimbabwe all have enormous economic potential. Sadly, South Africa seems likely to disappoint – certainly over the next 18 months to two years.

Angola's recovery is some years down the road given ongoing political problems and the need to rebuild the infrastructure and the country's once impressive manufacturing sector. Mozambique – ranked the world's second poorest economy – is also a long-haul prospect, a comment that applies equally to debt-stressed, copper-dependent Zambia.

Zimbabwe has the potential to outperform most sub-Saharan economies but public sector mismanagement, culminating in budget deficits in excess of 10 per cent of GDP in the past two years and President Robert Mugabe's ambivalence, if not hostility, towards foreign capital, are holding the country back.

Sub-Saharan Africa's second largest economy, Nigeria, is having a better year in 1996, thanks entirely to higher oil prices. But political and social tensions and a reluctance to implement commonsense economic reforms, including abolition of the two-tier exchange rate and the imposition of negative real interest rates, will combine to constrain economic growth.

In an increasingly globalised world economy, the region's failure to make stronger headway is explained by its inability to attract foreign capital and exploit export opportunities.

Africa's share of world trade has more than halved from 5 per cent in 1980 to 2.2 per cent in 1995. In the past 10 years when its export markets have been growing 4.5 per cent a year, sub-Saharan exports have risen only 2.4 per cent as the region lost market share.

Its share of global FDI inflows to developing countries in the past five years has been a miserly 2.9 per cent. Today, excluding South Africa, it accounts for 5.5 per cent of the developing world's inward stock of FDI, down from 15 per cent in 1980.

These trade and investment numbers tell the real story of what has gone wrong in Africa. While the United Nations in its New Agenda for the Development of Africa continues to bemoan the failure of OECD countries to step up their aid to the region, the hard reality is not only that aid is a sunset industry, but also the donors have precious little to show for their past efforts. Expecting more from the donors, who have made Africa aid dependent, rather than competitive, in global markets, is not the answer.

Private sector investment will not be revived by grandiose strategies conceived by international bureaucrats at UN headquarters. So long as African governments can rely on the international agencies and donors to close their "finance gaps" the greater will be their reluctance to buy into globalisation as the solution to the region's problems. The comparison between fast-integrating Asia and slow-integrating sub-Saharan Africa tells it all.

Sub-Saharan Africa: forecast summary

Indicator	1986-95	Baseline 1996-2005
GDP	1.7	3.8
GDP per capita	-1.2	0.9
Export volume	2.6	4.6
Median inflation	9.6	8.0
Current account/GDP	-1.1	-2.2

Source: World Bank baseline forecast February 1996

Growth in per capita GDP (% p.a.)

Years	1961-72	1973-80	1981-90	1991-93
Africa	1.3	0.7	-0.9	0.3
East Asia	7.0	7.1	9.4	7.4
Southeast Asia	3.2	4.9	4.3	4.2
South Asia	1.3	1.6	3.3	1.5

Source: The World Bank Economic and Social Data Base (BESD)

Growth and integration (1991-95)

	Real GDP growth per capita 1991-95 (% p.a.)	Export growth per capita 1991-95 (% p.a.)	FDI inflows as a share of GDP 1993-95 (%)
East Asia	8.0	14.1	3.1
South Asia	2.2	8.4	0.3
Sub-Saharan Africa	-1.5	-1.6	0.9

Source: World Bank Global Economic Prospects 1996

■ Ashanti Goldfields: by Michael Holman

A success story for Africa

The Ghanaian mining group is preparing to become a multinational

If sub-Saharan Africa was to seek a symbol of the region's economic potential, and nominate a role model for its development, Ashanti Goldfields would be high on the list.

Founded 100 years ago, run down in the 1970s, but revived in the 1980s as Ghana's economic reforms took effect, Ashanti is now seeking to establish itself as one of the world's leading mining houses.

The company's gold output – a little under 1m ounces last year – could well double in the next five years, say officials, as it exploits ore reserves well in excess of 20m ounces. This would make Ashanti one of the world's top five producers.

Companies from as far afield as Australia, Canada, Britain and South Africa have helped boost Ghana's gold exports to $647m last year, accounting for about 40 per cent of the country's foreign exchange earnings and supplanting cocoa as its biggest hard currency earner.

But at the forefront of the gold boom is Ashanti, an indigenous company well on its way to becoming a multinational operator. A spate of acquisitions over the past year have expanded Ashanti's interests from its lucrative operations in Obuasi, Ghana, into a dozen or so gold mines and claims across the continent.

Presiding over these developments is the man who has been called Africa's most prominent black businessman – Sam Jonah, who began his career working underground at Obuasi, before taking up a company scholarship and a place at the Camborne School of Mines in Cornwall.

Under his leadership, Ashanti has been transformed over the past decade or so, having been floated in 1994, and now listed on the stock markets in London, New York, Toronto, Zimbabwe and Ghana.

The past 12 months have not been plain sailing, however. There have been suspicions that South Africa's Anglo American Corporation is on the takeover trail, only partly allayed by a statement from chairman Julian Ogilvie Thomson saying that "Anglo has no intention to seek control of Ashanti".

But the share price has taken a knock for several reasons: concern about Ashanti's capacity to manage its expanded interests, failure to meet the 1m-ounce production forecast for Obuasi in 1995, and a hitch in its offer for Australia's Golden Shamrock Mines. With Ashanti's share price a little over £11, substantially down on the 1996 high of £18, company officials have ground to make up. Nevertheless, they can point to an impressive track record.

In little more than a decade, what was a struggling under-capitalised operation at Obuasi has become one of the biggest and richest gold mines in the world.

Production has soared from 240,000 ounces in 1986 to just over 932,000 ounces last year, investment this year alone will reach $140m, boosting the mine's capacity.

The turn-round of Obuassi is a testimony both to the impact of Ghana's structural adjustment programme, introduced in the early 1980s and which helped create the necessary environment for investment, as well as the drive of Sam Jonah, and the calibre of his staff.

The result of a 10-year programme has seen production more than double since 1990.

Sam Jonah: Africa's most prominent black businessman

The culmination of the first phase of Mr Jonah's stewardship came in April 1994, when the company was listed on the London and Ghana exchanges. Although retaining a "golden share", the government of Ghana sold 30 per cent of its 55 per cent interest for $454m, and opened the way for nearly 34,000 shareholders from around the world. Earlier this year Ashanti became the first indigenous African company to be fully listed on the New York Stock Exchange, and later listed on the Toronto exchange.

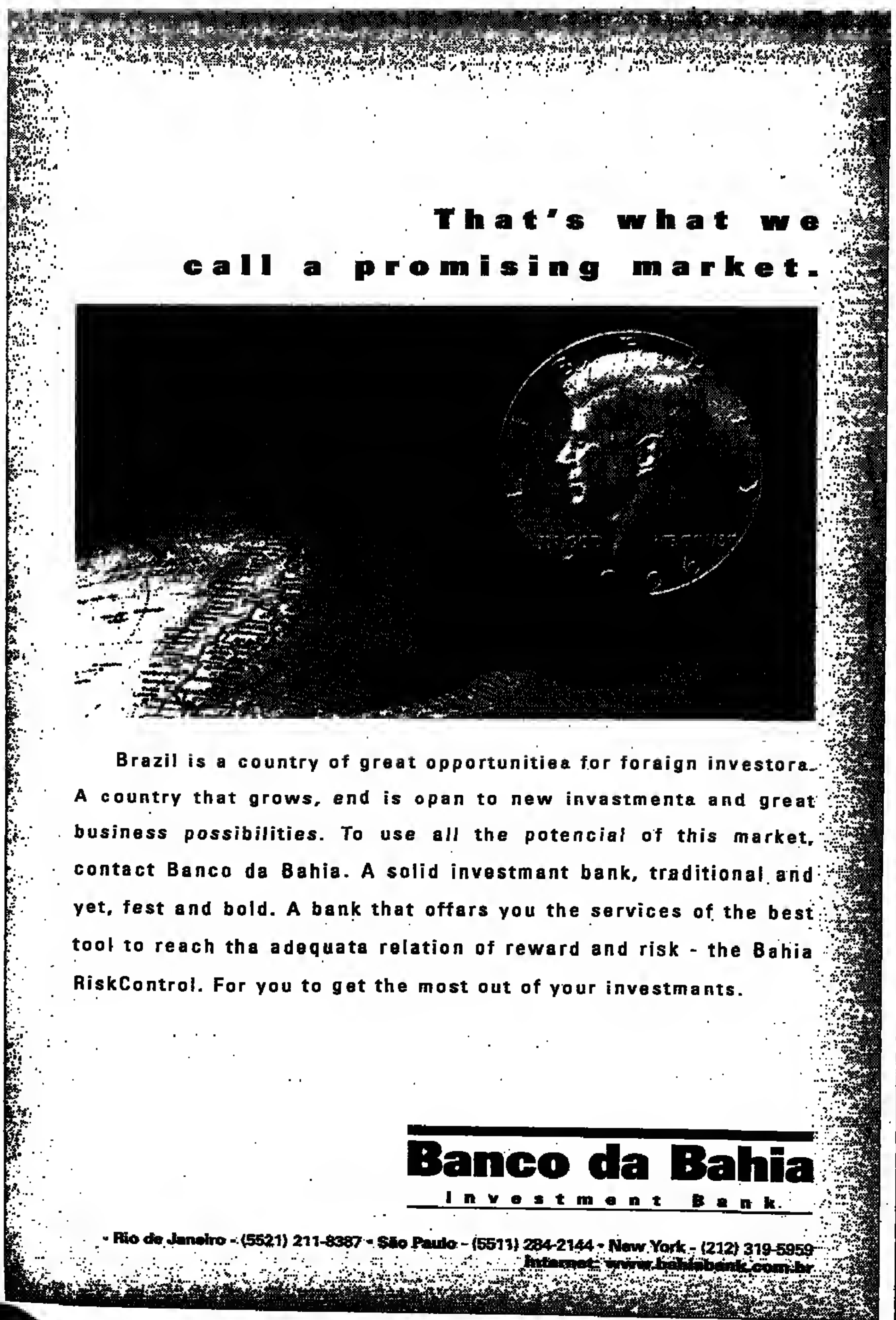
Meanwhile, an acquisition spree totalling more than $500m began at the start of this year, when Ashanti announced that its offer for Cluff Resources had been unconditionally accepted. This not only added to Ashanti's holdings in Ghana, but gave the company the Freda Rebecca mine in Zimbabwe, as well as potentially lucrative interests on the shores of Lake Victoria.

The Cluff deal was closely followed by a $100m agreed offer to International Gold Resources of Toronto, whose main asset is the right to a 45 per cent operating interest in the proposed Bibiani gold mine in Ghana.

The third proposal, however, ran into snags – namely an offer for Golden Shamrock Mines, with a 70 per cent interest in the Iduapriem open-pit mine near Tarkwa, Ghana, as well as the Siguiri open-pit gold project in Guinea.

A 26 per cent fall in Ashanti's share price in the following weeks led most directors of Golden Shamrock Mines – the Australian producer for which Ashanti has been bidding – to abstain from recommending, or opposing, the takeover.

Company officials are confident, however, that Ashanti is well on its way to achieving its ambitious objective.



■ South Africa: by Roger Matthews

Period of grace over

Economists are urging radical measures but government prefers caution

The options for South Africa's economic policy makers have in the past six months become much clearer, and less comfortable. When the African National Congress took power at the head of a government of national unity in May 1994 it had hoped, even assumed, the success of the political transition would boost business confidence and attract a surge of foreign investment. At the very least it would provide a breathing space while the country adjusted to the challenges offered by its re-entry into the global economy.

Long-term foreign investment, however, has proved disappointing, and the period of grace is over. The end came suddenly in the middle of February when ill-founded rumours about the health of President Nelson Mandela provoked an assault on the rand. The currency has since lost more than 20 per cent of its value against the dollar.

Ministers are at a loss to explain the rand's collapse. They argue that it cannot be explained by economic fundamentals, and prefer to believe it is the victim of speculative whims by ill-informed currency traders. Although growth forecasts for this year have been scaled down, Trevor Manuel, the minister of finance, says that it should still reach 3 per cent. Inflation, running at an annual rate of just over 7 per cent, is the lowest for 23 years, and has been below 10 per cent for 36 months. The reputation of the new government for fiscal discipline has meanwhile been enhanced with ministers confident the budget deficit will decline to 5.1 per cent of GDP during the current financial year.

Most important, the government announced in June its most detailed macroeconomic policy aimed at achieving 6 per cent growth at the end of the century, 450,000 new jobs a year, and further budget deficit reductions. Chris Stals, the governor of the Reserve Bank, says that taking all factors into account it should be obvious the rand's current value does not reflect South Africa's true potential.

The growing scepticism among economists in South Africa is based largely on the fear the government lacks the political determination to release that potential. Some further argue the fundamentals are much less positive than ministers claim. Nico Czypionka, chief economist at Standard Bank, says growth over the past three years has been largely due to cyclical factors, and a windfall gain in the past 12 months due to good rains boosting agricultural production. "Without that we would already have been falling on our nose," he says.

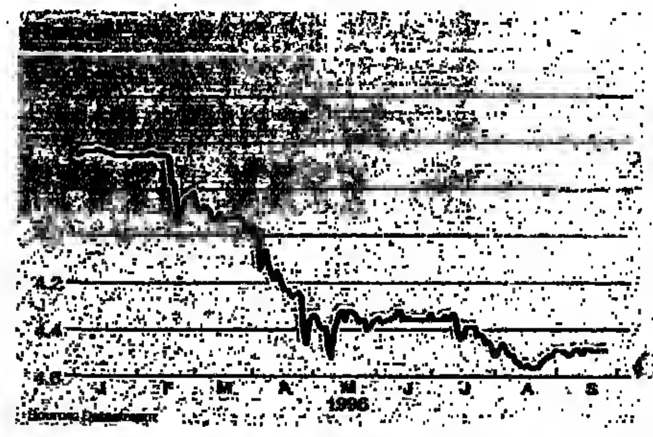
With industrial output down 1 per cent in the first half of this year there are already clear signs the economy is slowing, and GDP growth could fall to around 2 per cent next year. To counter this threat, and to give credence to the government's economic objectives, Mr Czypionka wants to see a more vigorous commitment to privatisation, faster action to remove remaining foreign exchange controls, and far deeper cuts in government spending.

The government, however, believes it must remain cautious and needs to build political consensus before embarking on more radical measures. The pace of privatisation is constrained by its union allies, the abolition of exchange controls by fears of capital outflow, and deeper budget cuts by the political imperative of beginning to redress some of the worst consequences of the apartheid years.

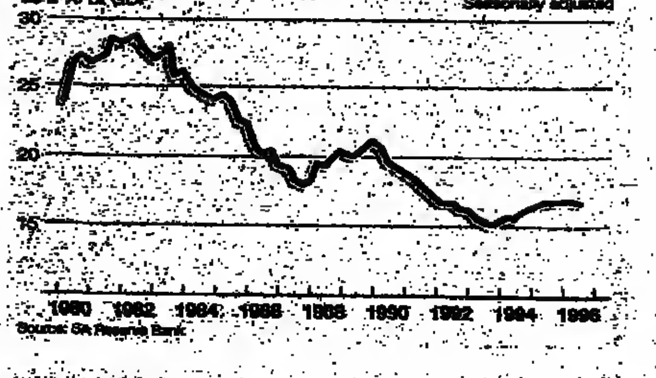
Caution, however, also has a price. Net foreign capital inflows in the first six months of 1996 were just R2.7bn, compared to R11bn in the comparable period last year. Gold and foreign currency reserves have fallen from more than R16bn to R10bn, and concern is growing at the Reserve Bank over the increase in the balance of payments deficit. Domestic savings are obstinately low, and the level of personal indebtedness has risen to the point where Mr Stals has again warned banks about the quality of their loan portfolios. The high hopes for successive cuts in the bank rate this year, have given way to hopes that increases above the present level of 16 per cent can be avoided.

Mr Stals warned recently that with its low savings, and high propensity to consume, South Africa could not have low interest rates for any length of time without running the risk of high inflation. The upward pressure on interest rates was further exacerbated by the balance of payments deficit.

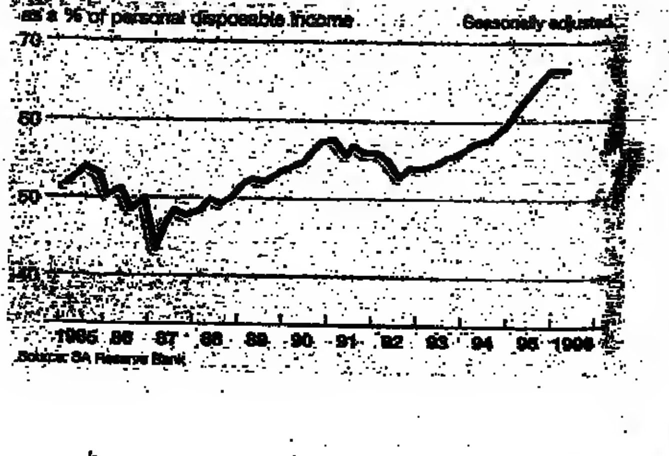
This sombre assessment has to be seen against the backgroud of South Africa's most pressing economic problem: an unemployment rate officially measured at more than 33 per cent of the working population. The government's own economic models indicate that growth rates of even 4 per cent will not halt the annual increase in the unemployment. President Mandela is now committed to policies, supported by the business community, which could reverse thet trend. An increasingly restive international jury wents to know when, and how vigorously, his government will implement them. The value of the rand will provide the verdict.



Gross domestic fixed investment



Household debt



■ Telecommunications : by Alan Cane

Era of the supercarrier

As the bigger groups expand, casualties are likely among smaller operators

The world's telecommunications markets are opening to competition at an unprecedented rate as technological and political pressures combine to undermine monopolies once seen as natural and unassailable.

The US, the UK, and a number of smaller economies have already liberalised their voice, data and mobile telecoms markets. Mainland Europe is expected to follow suit, bowing to European Union regulatory pressure, from January 1, 1998. Early next year the World Trade Organisation hopes to conclude talks aimed at freeing much of the rest of the world's trade in telecoms.

An inevitable consequence will be that incumbent telecoms operators – many now privatised or in the process of privatisation – will find profits squeezed as increased competition and lower technology costs force down prices and profit margins. This will affect all the world's operators – who are for the most part making substantial profits – but will bear down most heavily on those used to enjoying a monopoly position.

Expansion into new territories and the formation of alliances to tackle new markets is one of the principal strategies operators are using to counter the challenge of shrinking profitability. Typically, however, operators seek a local partner to smooth their passage in unfamiliar territory. The result is a global web of relationships between major and smaller operators of remarkable complexity. Companies are often at the same time competitors, collaborators and partners.

To give just one example, Ameritech, a US local operator, holds a 1.7 per cent stake in the Belgian state operator Belgacom, a 49 per cent stake in a venture to provide mobile telephony in Taiyuan, China, a 15 per cent stake in Matav, the Hungarian operator and a 24.8 per cent stake in Telecom Corporation of New Zealand, among other holdings.

Telecoms and the information technology sector continues to grow rapidly. Between 1985 and 1995, total revenues grew to $50.6bn at a compound annual growth rate of 10.8 per cent, according to the US consultancy Telegeography. Revenues are expected to continue to grow at a high rate with the further expansion of services such as Internet access provision and the introduction of new offerings, including videotelephony. Operators are already planning initiatives in these new areas, conscious that profits will remain under pressure.

Ovum, a London-based consultancy notes*: "Because of the overall growth in telecoms markets, additional revenue from foreign markets can exceed lost revenue in domestic markets." "However, there will be some casualties, particularly among smaller operators and those unable to adapt rapidly to the changing environment."

The largest operators are cooperating in alliances aimed at creating "global supercarriers", operators able to offer worldwide services to large international customers. According to Ovum, such customers' demands include: worldwide availability of services with uniform network functionality; flexible billing, allowing the customer to decide the most appropriate billing breakdown; and the ability to monitor network traffic, faults and performance.

The three largest of these supercarriers are Concert, an alliance between British Telecommunications and MCI of the US, Global One, which links Deutsche Telekom, France Télécom and Sprint of the US, and World-Partners, whose equity members include AT&T of the US, Unisource, KDD of Japan and Singapore Telecom. Unisource is itself an alliance between a number of Europe's smallar operators including PTT Telecom of the Netherlands, Telia of Sweden, Swiss Telecom PTT and Telefónica of Spain.

In South America, a group of operators including CTC Mundo of Chile, Embratel of Brazil, Telistar of Argentina, Antel of Uruguay and Antelco of Paraguay is collaborating to provide services to multinationals in the region under the name Sintonia. In the US, the passing of tha 1996 telecommunications act, has opened the door to a rash of deals between local phone companies – SBC Communications and Pacific Telesis merged, as did Bell Atlantic and Nynex Corporation.

Global information economy
Traffic growth trends 1985-1994 and projections 1995-2000

Indicator	Historical trend 1985	1994	CAGR 1985-94	Base case 2000	CAGR[1] 1995-2000	11% growth 2000	CAGR 1995-2000	15% growth 2000	CAGR 1995-2000
Calls (Bn)	3.2	14.3	18.3%	29.6	12.8%	33.2	15.1%	37.0	17.1%
Est. call length (min)	4.7	3.7	-2.5%	3.0	-3.5%	3.0	-3.5%	3.0	-3.5%
Minutes (Bn)	14.8	53.3	15.3%	88.7	8.9%	98.7	11.0%	110.9	13.0%
Per subscriber	36.2	82.3	8.6%	99.4	3.2%	111.8	5.2%	124.4	7.1%
Revenue (US$bn)	20.0	50.6	10.8%	65.9	4.5%	83.1	8.6%	92.5	10.6%
Price per MITT ($)	1.35	0.95	-3.8%	0.74	-4.0%	0.74	-4.0	0.74	-4.0%
Main lines (m)	410	647	5.2%	892	5.5%	892	5.5%	892	5.5%
Mobile subscribers (m)	0.7	53.0	61.8%	261	30.4%	261	30.4%	261	30.4%
Expansion (MITT) due to:									
Network expansion	657	3,152	36.4%	4,481	63.1%	4,736	49.3%	5,010	40.3%
Organic growth	867	2,456	63.6%	1,494	36.9%	7,546	50.7%	13,483[2]	59.7%
Total	1,523	5,608	100.0%	5,975	100.0%	12,282	100.0%	18,493	100.0%

1985-1993 based on reported data; 1995-2000 based on ITU forecasts. Traffic growth due to network expansion implies extra traffic generated by new subscribers. Organic growth implies extra traffic generated by existing subscribers. [1] Compound annual growth rate; [2] Includes estimate for traffic generated by new mobile subscribers. Source: ITU, TeleGeography Inc

A further merger between WorldCom, tha fourth largest US long-distance carrier, and MFS created what many believa to be a new breed of telecoms companies encompassing local, long-distance and international operations, togethar with Intarnet access. What distinguishes the new company from traditional operators is its efficiency, entrepreneurial management and freedom from the legacy systems of the older companies.

These alliances have been driven by a conviction among the world's principal operators that global competition will lead to significant rationalisation, leaving only a handful of companies with tha resources, geographic reach and skills to service the $10bn a year multinational business market.

On this analysis, smaller companies will have to decide whether to ally themselves with one of the supercarriers or else seek a profitable market niche.

The picture is complicated by the convergence of telecoms with computer processing, generating new ways of distributing information and entertainment. Aggressive telecoms operators have not only to seek partners in countries where they intend to challenge the incumbent operator – the relationship between Cable and Wireless of the UK and Veba of Germany – but also partners able to provide content.

Bert Roberts, chief executive of MCI, the second largest US long-distance carrier pointed out: "No single player has the combined strengths to meet the full range of customers' expectations in the global market, so partnering is essential. MCI views partnering as a vital core strength and the basis for our plans to expand beyond our core business ... BT our partner in global communications and News Corp, our partner in content, fit the bill perfectly."

Regulators, however, are watching the development of these alliances, aware that alliances whose partners operate from closed markets have an advantage over companies whose home territory is open to competition. Only Concert of the big three has full approval to operate in the US and Europe. Global One has approvals from tha US and European authorities conditional on the opening of the French and German markets.

Operators and service providers will need strong narves over tha next few years as the full consequences of privatisation, liberalisation and, aventually, deregulation work through.

* *The World's Major Telcos 1996 (3 vols). Ovum, 1 Mortimer Street, London W1N 7RH. Tel: +44 (0) 171 255 2670, £1,995.*

■ Middle East: by Roula Khalaf

EU initiative offers hope

A misguided reliance on oil has stood in the way of trade co-operation

Despite the persistent rhetoric about Arab co-operation, the Middle East and North Africa region remains one of the least integrated in the world. Since the fall in oil prices in the mid-1980s, the region has also effectively been disengaging from the global economy.

But to give many countries in the region a chance to improve this dismal record, the European Union last November extended a helping hand by agreeing with 12 Middle Eastern and North African nations a common strategy to create free trade zones by 2010.

That the countries in this region do not trade enough among each other, or with anyone else, is a reflection of a misguided reliance on oil and of poor economic policies adopted over decades.

The 1960s and 1970s the oil boom allowed the region to outperform all others apart from eastern Asia in per capita income growth. Since the mid-1980s, however, per capita incomes have fallen by 2 per cent a year, according to a World Bank study.

Oil wealth opened up the Middle East to the outside world and allowed movement of labour from non-oil economies to rich Gulf states. But dependence on oil has been such that it continues to account for about 80 per cent of the region's exports.

"Countries in the Middle East and North Africa have not used integration with the world economy as an engine for growth," says the World Bank. "They are less integrated today than 30 years ago, with trade as a share of output having declined, in contrast to all other regions except sub-Saharan Africa."

There have been many attempts made at promoting regional integration – from the Arab Common Market in 1965 to the Gulf Co-operation Council in 1981, to the Arab Maghreb Union in 1989 – but total intra-regional trade stands at a mere 7 to 8 per cent of total trade.

The World Bank says: "That they trade so little with each other is a reflection more that they trade very little at all than that there are no regional trading opportunities." With 260m people, the World Bank points out, the Middle East and North Africa have non-oil exports which are less than Finland's, with a population of only 5m.

Jean Bonvin, president of the Development Centre of the Organisation for Economic Co-operation and Development, says regional integration in the Middle East can be promoted only through further integration of Middle Eastern economies into the world economy, which requires above all liberalisation of economic policies.

Experts cite a long list of reasons why the region has fallen behind, from regional political instability which has led to high defence spending and deterred investment, to the adoption of domestic economic policies which have not been conducive to increased competitiveness. Overall productivity in the region has been declining by about 0.2 per cent a year.

Oil wealth for long allowed many of the region's economies to squander resources on non-productive investments, and overwhelming state control – although now declining – has created rigidities with burdensome regulation, insufficient liberalisation of markets, stringent labour laws, and inadequate education systems.

Growing problems of unemployment are underlining the need for change in economic policies. While a largely young population is growing at 2.7 per cent a year, the labour force is increasing 3.3 per cent annually.

Several countries have in the past decade restructured their economies under IMF programmes. Interestingly, the countries that have in the process most successfully integrated into the world economy today are those without oil resources – Jordan, Tunisia and Morocco. Moreover, Egypt now appears to be making a serious effort at promoting growth and attracting foreign investment by accelerating its privatisation programme.

Many experts were pinning their hopes for an economic revival and economic co-operation in the region on the Middle East peace process. But this has been stalled since last May's election of a new right wing government in Israel.

The EU's initiative is by far the most promising attempt to integrate Middle East economies within the global economy and at the same time promote intra-regional trade. To help countries who sign the initiative raise their productivity levels and sustain the dismantling of barriers, the EU has promised to provide Ecu4.7bn (£3.83bn) in grants and a similar amount in soft loans for the period 1995-99.

EU officials say the initiative starts from the assumption that the countries involved have a chance to integrate themselves into the global economy and have the national will to do so but cannot accomplish the task on their own. Opening their markets to EU products will force signatories to focus attention on attracting foreign investment as well as increasing productivity to competitive levels.

The initiative aims to also encourage regional trade. Projects with a regional focus, for example, receive priority of funding.

Tunisia, Morocco and Israel have already concluded agreements with the EU, and programmes to upgrade local industry are now under way in both Tunisia and Morocco. Meanwhile, Jordan and Lebanon are close to signing. Negotiations with Egypt have proved tougher, but EU officials say a deal is expected by the end of the year.

United Mexican States

US$6,000,000,000
Floating Rate Notes due 2001

JPMorgan
August 1996

The Republic of Slovenia

US$325,000,000
7% Notes due 2001

JPMorgan
August 1996

Republic of Argentina

US$500,000,000
Floating Rate Notes due 1999

JPMorgan
August 1996

Türkiye Cumhuriyeti
(The Republic of Turkey)

US$500,000,000
8 1/4% Notes due 1999

JPMorgan
June 1996

Republic of Lithuania

US$33,000,000
Term Credit Facility

JPMorgan
April 1996

Republic of South Africa

£100,000,000
9 3/8% Notes due 2006

JPMorgan
January 1996

People's Republic of China

US$300,000,000
6 5/8% Notes due 2003
US$100,000,000
9% Bonds due 2096

JPMorgan
January 1996

Vodohospodárska výstavba
(The Republic of Slovakia)

US$200,000,000
Term Facility

JPMorgan
December 1995

The Republic of Poland

US$250,000,000
7 3/4% Notes due 2000

JPMorgan
July 1995

A leader in capital raising for Sovereigns

JPMorgan